CHAPTER 4

Principles of Fundraising

After an introduction to fundraising and philanthropy in Chapter 1, this text now has discussed both parties in philanthropic transactions—nonprofit organizations (in Chapter 2) and donors (in Chapter 3). This chapter begins an exploration of the *process* that brings them together—fundraising—with a discussion of some overarching concepts and principles. Some terms and concepts introduced are explored in more detail in later chapters of this book, so discussion of them here is brief. For example, prospect research is discussed in this chapter as a component of the fundraising process, but Chapter 5 discusses it in greater detail as an aspect of preparing an organization for fundraising. The solicitation programs defined in this chapter—annual giving, major gifts, and corporate and foundation relations—are the focus of subsequent chapters. Planned giving, a strategy for major gifts, also is discussed in a separate chapter later in the book.

While Chapters 2 and 3 draw primarily on the academic literature, this chapter relies much more on the practitioner literature. This is because most of the principles of fundraising have emerged from practice historically, rather than from theory.

TYPES OF GIFTS

As explained earlier, nonprofit organizations receive gifts from three sources—corporations, foundations, and individuals. The gifts can be classified four ways, as summarized in Table 4.1. In reality, the categories overlap, since most gifts can be classified in more than one way.

Defined by Amount

Gifts are defined as **annual gifts**, **leadership annual gifts**, **major gifts**, or **principal gifts** according to the dollar amount (APF fundraising dictionary online; Lowman, 2012; Schubert, 2002). Smaller gifts are called annual gifts, even if they are not necessarily repeated on an annual basis, because they usually are not restricted by the donor and thus can be used by the organization toward its annual operating budget. The definition varies among organizations, but a leadership annual gift is commonly defined as $1,000 or more. These are larger than the average annual gift but smaller than major gifts; for that reason, Lowman (2012) calls them "gap gifts"—possibly too large to be secured through direct

TABLE 4.1 Types of Gifts

Defined by Amount	
Principal gift	Large major gift; sometimes defined as $1 million or more
Major gift	Large gift; sometimes defined as $10,000 or $100,000 or more
Leadership annual gift	Large for an annual gift; sometimes defined as $1,000 or more
Annual gift	Relatively small gift, usually less than $1,000; often repeated on a regular (often annual) basis
Defined by Purpose	
Capital gift	Adds to the organization's physical capital (e.g., buildings) or financial capital (endowment)
Program or project support	Made to support a specific activity (restricted, current operations)
Unrestricted gift	To be used at the discretion of the organization, often used to support the current-year operating budget
Defined by Donor's Perspective	
Ultimate gift	The largest gift of the donor's lifetime; timing based on the donor's circumstances
Special gift	One-time gift made to support a specific purpose, may be repeated periodically but not annually; timing based on the organization's needs
Regular gift	Recurring; timing based on the calendar, usually annually
Defined by Donor's Method	
Planned gift	A gift integrated with the donor's financial and estate planning; may be outright planned gifts, expectancies, or deferred gifts
Pledge	A gift promised now, to be paid in the future, often in installments
Outright gift	A gift the donor completes with one payment, using cash or marketable property

Note: The terms *ultimate gift, special gift,* and *regular gift* introduced by Dunlop (2002).

marketing methods such as mail, e-mail, or phone but not at a level where they would be acquired through a major-gifts program. Similarly, the definition of a major gift varies; for some organizations, it may be $1,000 or $10,000, and for larger nonprofit institutions it may be $100,000 or more. The term *principal gift* is used to refer to large major gifts. *Principal gifts* are defined by dollar level, commonly $1 million or more. Sometimes very large gifts are called "mega gifts," a term introduced by Panas (1984), but the term has no precise definition.

Annual gifts are usually made from the donor's current income. A major gift may be made from the donor's current income, especially if it is paid in installments over a period of years, but it also may be made from the donor's accumulated assets. Principal gifts are almost always made from the donor's assets rather than current income and often from the donor's estate. For this reason, it is understandable that major and principal gifts require greater thought and planning, since they deplete resources that the donor may not be able to replenish (Alexander & Carlson, 2005).

Defined by Purpose

Another way to classify gifts is by their intended purpose, which may or may not be designated by the donor. As the term implies, an unrestricted gift comes with no direction from the donor and can be used by the nonprofit for its general operating purposes. Since such gifts are unrestricted, there is no reason that a nonprofit could not use them to support specific programs or to meet capital needs. But most organizations rely on unrestricted gifts as a line item in their operating budgets and use them for that purpose. As explained, unrestricted gifts are considered annual gifts, both because they are often given on that schedule and because they are generally expended in the year they are received.

Other gifts (or grants) are restricted; they are given for specific purposes, which may be to support a current program or to meet the organization's capital needs.[1] Thinking back on the brief discussion of nonprofit financial management in Chapter 2, there are two kinds of capital—physical capital (buildings and equipment) and financial capital (endowment). Endowment is capital because the principal is usually not available for expenditure but is invested in perpetuity to generate investment returns, which are expendable (Bowman, 2011).

Defined by Donor's Perspective

Dunlop (2002) identified three types of gifts people make based on the donor's perspective. Many people have charities or causes they support with **regular gifts**. They are often made on an annual basis but may be given more frequently, perhaps monthly. The timing is driven by the calendar. For example, a college or university alumna may respond to the first mailing of the year from her alma mater, which typically occurs in the fall, at the beginning of the academic year. Many people make their gifts to charitable organizations near the end of the calendar year, perhaps motivated by the spirit of the holiday season as well as the approaching end of the tax year.

Donors also make **special gifts**, for specific purposes. These gifts are in addition to and usually larger than their regular gifts and are intended to be made one time, although a donor may make multiple special gifts over the years. The timing of special gifts is related to the needs of the organization, rather than the calendar. A nonprofit may undertake a campaign to raise funds for a new building or a major renovation or to purchase a new item of expensive equipment. Or it may seek special gifts to support a one-time program, like a conference or to respond to an emergency. For example, some people may make regular gifts to the Red Cross but then make a special gift to address the extraordinary need for disaster relief following a hurricane. Others may make a special gift in connection with a peer-to-peer fundraising initiative, for example, to sponsor a friend who is participating in a charity walk, run, or ride. Such gifts are usually special gifts because they are tied to one event and are not repeated on a regular basis.

Special gifts are often major gifts, but the terms are not synonymous. Again, a major gift is defined by the dollar amount, and the threshold is established by the organization. From the donor's perspective, the gift is special, because it is in addition to and usually larger than his or her regular gifts (Dunlop, 2002).

Donors who support a nonprofit organization or institution over a long period of time may make regular gifts every year, special gifts from time to time, and eventually what Dunlop calls an **ultimate gift**. An ultimate gift is "an exercise of the giver's full giving capacity. [It] is the largest philanthropic commitment that the giver is capable of making" (Dunlop, 2002, p. 92). The timing of an ultimate gift is driven by the donor's life circumstances rather than the calendar or the needs of the organization. Many ultimate gifts are made using planned giving, for example, as a bequest at the donor's death, but some ultimate gifts also are made during the donor's lifetime.

It is important to distinguish between the terms *principal gift* and *ultimate gift*. A principal gift is defined by amount. An ultimate gift is defined from the donor's perspective; it is the largest gift of which the donor is capable and its timing depends on the donor's circumstances. Think back on the two cases presented in Chapter 3. Osceola McCarty's gift of $150,000 to the University of Southern Mississippi was her ultimate gift, although maybe not defined as a principal gift from the university's perspective. A principal gift is often a donor's ultimate gift, but some wealthy donors may make gifts to various organizations that are exceptional in each case; all of them may be principal gifts from the perspective of those organizations, even though none may be the donor's ultimate gift. For example, T. Denny Sanford's $20 million gift to the University of South Dakota medical school in 2006 was a principal gift from the perspective of that institution, which was renamed in Sanford's honor. But his ultimate gift may have been the $400 million he gave in 2007 to the Sioux Valley Hospitals and Health System, now Sanford Health. That surely was a principal gift from the perspective of Sanford Health, and it seems probable that it was Sanford's ultimate gift, although that cannot be known yet, since he is still living and it is conceivable that he could make an even larger gift at some future time.

Defined by Donor's Method

Gifts also may be classified according to the method the donor uses in making it. An **outright gift** is one completed with a single payment; that is common for annual gifts of modest amounts. But some donors make **pledges**, committing to make a gift that will be paid in the future, perhaps all at once by some date or in installments over some period of time (AFP online). A major gift or a principal gift often is paid over a period of years, but some donors also make a pledge for their annual gifts and plan to pay them in installments, perhaps monthly over the year. Remember from Chapter 2 that a pledge is recorded as revenue by the organization when it is made—it is a receivable—but the subsequent payments are not double counted when they are received.

As the term implies, a **planned gift** is one a donor has included as a part of his or her overall financial and estate planning (AFP online). This is not to imply that other gifts are necessarily unplanned or that they are spontaneous or irrational. But they are likely to be less consequential to the donor's financial situation and so do not require as much careful consideration. A planned gift is not by definition a major or principal gift. For example, a donor could arrange for a bequest of, say, $1,000 to a favorite charity. That would be a planned gift but probably not a major or principal gift from the perspective of the organization receiving it. But many major and principal gifts are, at least in part, planned gifts, since they are likely to have implications for the donor's overall financial situation.

There are three types of planned gifts—**outright planned gifts**, **expectancies**, and **deferred gifts** (Regenovich, 2011). Some outright gifts are planned gifts because they involve complex assets, such as stocks or real estate, and may require the assistance of financial experts to complete. An expectancy is a promise a donor makes to provide a gift to the organization at some future time, generally at death, through a bequest, life insurance, or a retirement plan (Regenovich, 2011). Such promises may be informal or documented in writing. Deferred gifts are gifts the donor makes now but are not available to the organization until some future time, generally after the death of the donor or some other individual. They often involve charitable gift annuities and charitable remainder trusts, the details of which are discussed in Chapter 8.

Prior to the 1970s, *deferred giving* was used as the umbrella term. But the Tax Reform Act of 1969 defined various new forms of giving, and deferred giving was not an accurate description for all of them. The term *planned giving* was introduced as the broader concept, to include the range of gifts described earlier. It has been attributed to Robert F. Sharpe Sr., a prominent consultant in the planned-giving field (Sagrestano & Wahlers, 2012).

SOLICITATION PROGRAMS

Nonprofit organizations raise funds to meet the four types of gifts defined by purpose: unrestricted support for current operations, **restricted gifts** or grants to support current programs and projects, gifts for physical capital, and gifts for financial capital (endowment). Seiler (2011a) calls this the **four-legged stool** of a comprehensive fundraising program. But in practice, an organization's solicitation programs are usually not labeled in exact alignment with these four purposes.[2]

As depicted in Table 4.2, there are three core solicitation programs: annual giving, major gifts, and corporate and foundation support. Some development offices have a distinct program for soliciting principal gifts, but most encompass that within the major-gifts program. Annual gifts and major gifts are, of course, defined by the size of the gift, whereas corporate and foundation support relate to the donor constituency addressed. Corporate and foundation support are pursued through a distinct program because, as discussed in Chapter 3, such donors are distinctive in their motivations, require particular methods to solicit their support, and are most inclined to make certain types of gifts. Some large development offices establish separate programs for corporate support and foundation support, but most place responsibility for both under one program and staff specialist.

Planned giving is not identified here as a core solicitation program, although in common parlance many development offices have a planned-giving "program." But planned giving

TABLE 4.2 Core Solicitation Programs

Solicitation Program	Primary Donor Constituencies (Target Audiences)	Types of Gifts Secured	Common Solicitation Methods
Annual giving	Individuals, local businesses and foundations, corporations (especially sponsorships)	Unrestricted current operating funds (the annual fund)	Mail, phone, electronic communication (e-mail), events, personal solicitation
Major gifts/ principal gifts	Individuals	Physical capital (i.e., buildings, equipment) Financial capital (endowment) Restricted current operating funds (programs or projects) Unrestricted current operating funds (uncommon)	Personal solicitation, written proposals
Corporate and foundation support	Corporations, foundations	Restricted current operating funds (programs or projects) Unrestricted current operating funds (only with a close relationship or in the form of sponsorship) Physical capital (rarely) Financial capital (very rarely)	Written proposals, personal visits

is a method used by some donors, and from the fundraising perspective, it is a *strategy* for the solicitation of major and principal gifts.

It is important to clarify that development offices also have programs that encompass other activities that do not directly involve solicitation. For example, prospect research, donor recognition, communications, and stewardship or donor relations are activities often organized as programs. These are important activities, but they *support* the solicitation programs, which are at the core of fundraising.

In a small development office, some of the solicitation programs may be missing or embryonic, and those that are operational may be managed by one person or a few people. In larger development offices, each program has a dedicated staff of fundraising professionals, and as previously discussed, subspecialties have developed and include individuals working in these areas. That is because each program addresses a somewhat different donor constituency and uses different methods, thus requiring distinct knowledge and skills.

Annual Giving

The **annual giving** program is defined by the size of gifts and the type of gifts it usually emphasizes—unrestricted gifts to support current operations. Most are relatively small in amount, less than whatever the organization defines as a major gift (Lowman, 2012).The funds raised are called the **annual fund**, sometimes called the **sustaining fund** (AFP online).[3]

The terms *annual giving* and *annual fund* have origins in higher education fundraising and refer to the program that solicits regular gifts to meet current operating needs. Colleges and universities have constituencies that are essentially finite. For most, the primary donor constituency is alumni, who remain alumni all of their lives. For that reason, educational institutions traditionally have minimized the risk of donor fatigue by soliciting donors for one annual gift. That is, donors are asked to make one commitment for the year, although it might be paid in installments, and the emphasis is on maximizing the amount of that commitment and increasing it from year to year. Once a donor makes his or her annual fund commitment, that donor traditionally has been omitted from subsequent annual fund solicitations for the balance of the year. This strategy also is followed by other nonprofit organizations that have a finite constituency, including, for example, membership associations.[4]

In contrast, many nonprofit organizations are constantly developing their constituencies and resolicit current donors multiple times a year. For such organizations, the term *annual giving* may not seem to be an exactly accurate description of what occurs. But the term is well-established and widely used throughout the nonprofit sector to identify programs that solicit unrestricted operating support gifts on a regular basis (Weinstein, 2009).

As shown in Table 4.2, individuals are the primary donor constituency for the annual giving program (Rosso, 2011b). Local businesses and foundations also may make unrestricted annual gifts to local nonprofit organizations. Corporations may make unrestricted gifts but usually only if they have a close relationship to the organization. For example, corporations sometimes make annual gifts to organizations at which their employees volunteer or where their executives are board members. Nonprofits that have such connections have a better chance of obtaining an annual corporate gift, as do those that serve communities in which the corporation has a significant presence, either its headquarters or a large number of employees. Corporations also offer **sponsorships**, for example, in connection with a walk, a run, or a benefit dinner. The net proceeds of such an event may be unrestricted and thus might be counted in the annual fund.

Thinking back on our discussion of corporate and foundation motivations in Chapter 3, it is understandable that many prefer to restrict most of their gifts, rather than provide general support. They prefer to have an impact in areas of primary interest or to gain visibility or benefit from the gift, even if indirectly. Even individual donors are often reluctant to make unrestricted gifts of larger amounts. Someone who gives $10 or even $100 may do so merely to support the general purposes of the organization, but if that person gives $10,000 or $100,000, that person likely will prefer that the gift be restricted to some purpose that he or she particularly favors, for the obvious reason that the gift entails a greater sacrifice. Annual giving programs usually obtain relatively modest gifts and rely on volume to accumulate a meaningful total.

Major Gifts

As discussed, major gifts and principal gifts are defined by dollar amount, and the threshold varies among organizations. Corporations and foundations may make gifts or grants that meet the definition by dollar amount, but the *major-gifts program* is focused on individual donors.

Prospects for physical capital projects—for example, new buildings—are primarily individuals, and major gifts are usually required in order to complete such projects. Foundations and corporations may provide support for building projects in some circumstances, again, if there is an established and strong relationship with the nonprofit organization or if there is some direct link between the project and the company's employees, for example, a new hospital in a company town. But most are generally disinclined to give toward brick-and-mortar projects, so the organization has to rely primarily on major gifts from individuals.

Gifts that add to financial capital, that is, endowment, almost always come from individual donors (Newman, 2005). Corporations and foundations, with some exceptions, are unlikely to make such gifts, preferring to have greater short-term impact. Corporations also may be reluctant to give to an endowment fund that may someday be used to support an activity that cannot be foreseen now; they might see such uncertainty as a risk to their reputations down the road. Foundations may argue that they are indeed endowments themselves, investing their assets and generating investment earnings, from which grants are made. Transferring their assets to a nonprofit organization to be used in the same manner might seem like something that defeats their purpose, substituting the judgment of future nonprofit directors for those of the foundation's own future board members. Again, there may be some exceptions. For example, a corporation or foundation may make a gift to an endowment established to honor an individual who is prominent or who is associated with their organization or to support an institution with which it has enjoyed a long and close relationship. But in most cases, these are likely to be relatively modest gifts.

Planned Giving

As discussed, **planned giving** is properly understood as a method used by some donors and as a strategy employed by nonprofit organizations in the context of the major-gifts program. It is common to see references to an organization's planned-giving program, and it is indeed an organized set of activities that sometimes has dedicated staff and resources, but it is not a core solicitation program and thus is not include in Table 4.2.

In smaller development offices, there may not be the need or sufficient potential to justify a staff specialist with expertise in planned giving. In those cases, major-gifts officers may be trained in planned giving so that they are able to discuss the subject with major-gift prospects, but the organization maintains relationships with outside experts—including attorneys, accountants, financial planners, and independent gift planners—who can be consulted when working with a donor whose circumstances require such expertise.

Planned giving is primarily a strategy for securing major and principal gifts, but it is important to note that planned gifts are not defined by dollar amount. Many organizations cast a wide net in promoting them, even to donors who are not the focus of the major-gifts program, for example, to leadership annual fund donors. Even modest bequests, say, for $5,000 or $10,000, are to be encouraged, although many organizations would not define them as major gifts. Prospects for the planned-giving program are identified in part by demographic characteristics they have in common, for example, age and family circumstances, whereas wealth may be the primary criterion in identifying prospects for outright major gifts. Relationships with major-gift prospects are typically managed with the goal of obtaining a commitment on a definite timetable, whereas relationships with planned-giving prospects are often less time sensitive. Closing a planned gift may require a process that extends for as long as seven to ten years or more (Partnership for Philanthropic Planning, 2012). For these reasons, while the planned-giving program supports the major-gifts program and even may be organizationally integrated with that program, it is also distinctive in the ways mentioned earlier, and planned giving is a recognized specialty within the fundraising profession.

The planned-giving program addresses only individual donors, since corporations and foundations are not mortal and thus do not have a need for financial and estate planning. Some planned gifts, especially bequests, may be unrestricted; that is, a donor may simply specify that his or her bequest goes to the organization upon death without any further direction as to how it should be used. In that case, realized bequests could be used to meet current operating needs. However, since it is impossible to predict when bequests will be received, it is generally unwise to rely on them in planning annual operating budgets. Some large institutions with a long history of planned giving and larger **donor constituencies** may be able to project how much is likely to be received each year and include a conservative line item in the budget for that amount, but for most nonprofits this is a risky idea. Similarly, planned gifts usually are not useful for meeting the costs of building projects, since there is no assurance that they will be received within the period of construction or renovation. A planned gift might be designated to support a current program area; for example, a donor might stipulate that a school use her bequest to strengthen its programs in the arts. But bequests usually are not useful for funding specific projects, which, again, require that the timing of support be predictable. Many planned gifts are designated for endowment, which enhances the long-run financial strength of the organization. In that case, the timing of their receipt is not critical to current operations and programs.

Corporate and Foundation Support

As discussed previously, with some exceptions, corporations and foundations are not the most promising prospects for unrestricted gifts or those that address capital needs. Solicitation programs focused on corporations and foundations often focus on specific programs and projects.

Foundations and corporations (excluding family foundations and smaller privately held businesses) usually have formal guidelines defining what they are willing to support and how to apply for a grant (Collins, 2008). Some may issue a **request for proposal**, called an **RFP**, regarding grants they have decided to make in support of established philanthropic priorities. Organizations respond, usually with a formal written proposal, and the foundation or corporation selects grantees that it thinks most capable of advancing their predetermined goals, on a competitive basis. Thus, in these instances, the donor's decision is based more on the capabilities of the nonprofit to advance the donor's priorities than on the organization's own, self-identified needs.

Individuals also make restricted gifts to support special purposes; for example, an individual might make a gift to enable local children to attend the symphony. But individuals are generally less inclined to support something more complicated, like a research project in nanotechnology. Corporations and foundations may employ experts on nanotechnology and would be likely to understand the importance of it, so they would be better prospects for support of such research.

MATCHING PROGRAMS TO NEEDS

As mentioned, a nonprofit organization with a comprehensive fundraising program will maintain a full array of solicitation programs. But, as a practical matter, organizations with limited fundraising capacity may emphasize those programs and donor constituencies most appropriate to meeting their most critical needs. In a classic practitioner book, Broce (1986) explains:

> Institutions should not spend hard-earned dollars on nonproductive [fundraising] programs. . . . An institution with a small endowment but a great need for additional operating support should place its prime emphasis on aggressive annual-gifts programs. It also should be active in corporate-support programs with a continuing interest in planned giving programs, but its primary staff and dollar concentration should be on securing operating funds, which come mostly from individuals. . . . The institution should also be attracting endowment funds, but that should remain a secondary activity. On the other hand, using the same criteria, a research-oriented organization should focus its attention on fund raising from foundations. (p. 20)

Broce's advice is pragmatic and appropriate to some organizations' circumstances. However, as discussed later in this chapter, organizations that intend to increase their capacity and become sustainable need to build comprehensive fundraising programs that address all donor constituencies and secure the range of gifts needed to support the four-legged stool.

MATCHING PROSPECTS TO PROGRAMS

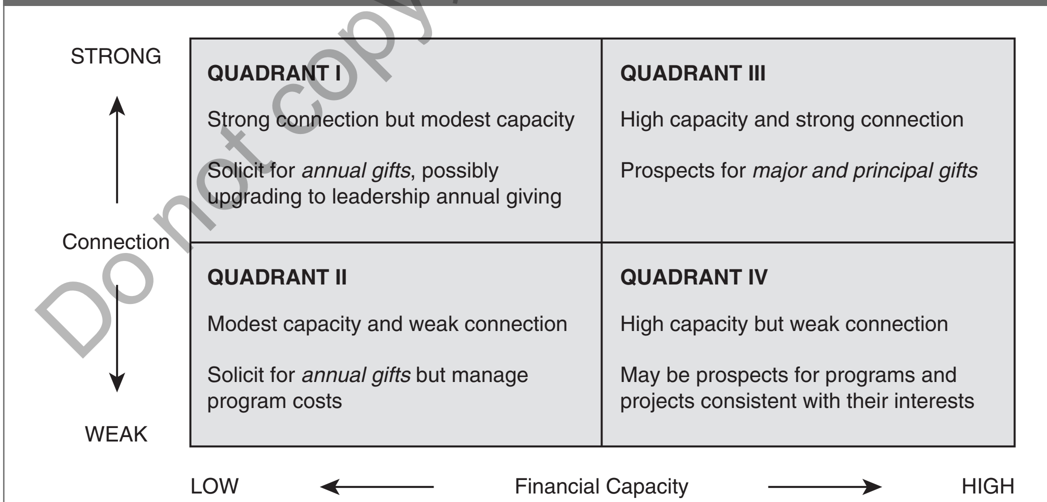
Just as a nonprofit's fundraising programs should reflect its financial needs, its donor prospects are best solicited through the most appropriate program. Prospects can be assigned to one of four quadrants, based on two criteria: their financial capacity for giving and the extent to which they are connected to the organization (Alexander & Carlson, 2005). The latter may mean a formal affiliation, such as a board member, volunteer, or former client would have, or it may mean the individual's "affinity to [the] mission" (Blackbaud, 2010). Both meanings are related, since those who have a connection are the most likely to also have an emotional affinity for the mission of the organization.

As Figure 4.1 portrays, those with modest financial capacity (on the left side of the diagram) are only prospects for annual gifts, since they do not have the resources to make major or principal gifts. Those who have modest financial capacity but a strong connection to the organization (Quadrant I) are "fans" (Blackbaud, 2010). They may upgrade their annual gifts and perhaps even make leadership annual gifts if their income permits. Since they are strongly connected, it is worth asking them to do so.

Those who have modest financial capacity and are not strongly connected (Quadrant II) are "acquaintances" (Blackbaud, 2010). They are at best prospects for annual gifts. They probably will not make leadership annual gifts, both because of their financial limitations and their weak connections. They might be solicited for annual gifts, but the organization would use the most cost-effective methods, since this is not likely to be the most productive segment of the organization's donor constituency (Alexander & Carlson, 2005).

Prospects on the right side of Figure 4.1 have high financial capacity. Those who also are strongly connected to the organization (Quadrant III) are the organization's best donor prospects. Blackbaud (2010) calls them "VIPs," meaning "very important prospects." Relationships with them should be managed as a part of the major-gifts program. What about those who have financial capacity but are not strongly connected (Quadrant IV)? They probably will not provide unrestricted support to the organization, but they might be prospects for specific programs or projects that align with their interests and that arouse their

FIGURE 4.1 Matching Prospects to Programs



Source: Based on Alexander, C. D., & Carlson, K. J. (2005). *Essential principles for fundraising success*. San Francisco: Jossey-Bass, p. 17; Blackbaud (https://www.blackbaud.com/files/resource/downloads/Datasheet_BlackbaudGivingScore.pdf).

passions, in a way that the organization by itself does not (Alexander & Carlson, 2005). This might be the case with some entrepreneurial donors, who have their own giving priorities and might consider any organization that has programs or projects consistent with those interests.

SOLICITATION METHODS

Various methods are employed to varying degrees within all solicitation programs, although each emphasizes some over others.[5]

The most common methods include **direct mail**, **phone (telemarketing)**, **electronic communication** (principally **e-mail**), **events**, **personal solicitations**, and **proposal writing**. Mail, phone, and e-mail are collectively called **direct marketing**. Proposal writing is sometimes called **grant writing**, and the skill to do so is called **grantsmanship** (AFP online). But the term *grant writing* is not really accurate, since the organization that writes the proposal really does not *write* the grant; the grant decision is made by a funder.

This chapter provides a brief overview of the most common solicitation methods, which are explored further in later chapters related to programs in which the various methods are most commonly applied. The growth of social media and mobile communications has introduced additional techniques, but the primary method of electronic solicitation is still e-mail. Fundraising using social media and social networks has gained visibility. It includes peer-to-peer fundraising, for example, in which individuals sponsor friends' participation in charity events. From the organization's perspective, the fundraising method is the event, with social media used to promote participation. Additional emerging techniques, for example, crowdfunding, are not discussed in this chapter but are explored in later chapters where they are most relevant, for example, as a strategy for raising funds toward a project.

As Table 4.2 shows, annual giving programs employ the methods of direct marketing but also may include personal solicitation of annual gifts at higher levels, that is, leadership annual gifts (Lowman, 2012). Fundraising events are also a method used by some nonprofit organizations to raise current operating support. Corporate and foundation fundraising often involve personal visits but also usually require written proposals. Fundraising for major gifts usually requires personal visits and often written proposals. The planned-giving program uses personal visits, written proposals, direct mail, and other methods to promote planned-giving opportunities.

The various solicitation methods all have advantages and disadvantages, but some are inherently more effective than others. Rosso (2011b) describes a **ladder of effectiveness** that places various methods on different rungs, from the most effective at the top to the least effective at the bottom. In general, the more personal the method is the more effective it is likely to be. Thus, face-to-face solicitation is the most effective, followed by personal communications using other methods, such as mail, phone, or e-mail. Least effective are impersonal methods, for example, direct mail and phone solicitations using professional callers (Rosso, 2011b). But, of course, there are tradeoffs in cost. Personal solicitation is effective but cannot be conducted in large volume, so it is relatively expensive and needs to be confined to leadership annual gifts, major gifts, and principal gifts. Mail, e-mail, and phone are relatively ineffective compared with personal solicitation, but they are also relatively inexpensive methods that can be used on a broad scale, securing a large number of smaller gifts that may be consequential in total.

THE FUNDRAISING PYRAMID

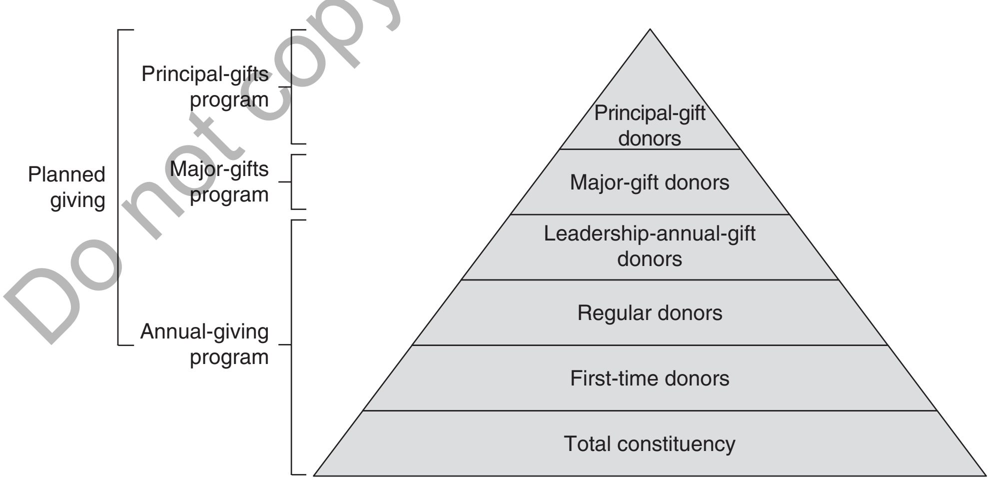
The **fundraising pyramid** helps to illustrate several principles and provides a useful tool for analyzing an organization's fundraising situation. It reflects some of the same points discussed in previous sections of this chapter but adds further insight. While the pyramid could apply to donors of all categories, including corporations, foundations, and individuals, the giving patterns it implies are mostly relevant to individuals.[6]

The pyramid depicted in Figure 4.2 reflects assumptions about how donors evolve in their giving—it suggests a progression—and it also describes how an organization might go about building its fundraising program from the bottom up.

Pyramid of Donors

Let's start at the bottom of the pyramid. Every nonprofit organization has a fundraising constituency, which forms the base of the pyramid. How that constituency is defined and developed varies, depending on the type of organization, its history, and the circumstances

FIGURE 4.2 Fundraising Pyramid



Sources: Alexander & Carlson (2005), p. 17; Ciconte & Jacob (2009), p. 102; Hogan (2008), p. 10; Sargeant et al. (2010), p. 331; Seiler (2011a), p. 45; Williams (2004).

of its location, among other considerations. Chapter 5 discusses this topic in more detail, but a simple way to think about it is that the constituency is the database of donors and potential donors an organization maintains.

An important objective for the annual giving program is the acquisition of first-time donors, that is, moving people up one level from the bottom of the pyramid. Once donors have made a first gift, the program's objective for those donors shifts to retention and upgrading, that is, turning them into **regular donors** and increasing the size of subsequent gifts (Seiler, 2011a). If a donor's annual gift reaches a predetermined level, it is defined as **leadership annual giving (LAG)** (Lowman, 2012). Again, the latter is defined in dollar terms and varies among organizations.

Donors providing annual gifts at the leadership level may be prospects for major gifts, if they have sufficient interest and financial capability. Some donors, usually after a long history of annual giving and periodic major gifts, may become prospects for principal gifts; that is, they may reach the apex of the pyramid in their commitment to the organization and its mission. It is important to note that planned giving does not appear in the fundraising pyramid, again, because it is a strategy for major gifts and is not defined by the amount of the gift. Corporate and foundation support also do not appear in the pyramid because they involve a specific donor constituency rather than the amount of the gift and because corporations and foundations generally do not follow the patterns suggested by the pyramid, which relates primarily to individual donors.

As the narrowing of the fundraising pyramid suggests, the number of individuals encompassed is smaller at each successively higher level. Not all members of the constituency will become first-time donors; not all who do will become regular donors; not all regular donors will become leadership-annual-gift donors; not all leadership-annual-gift donors will make major gifts; and only a few are likely to ever make a principal gift.

Again, the pyramid suggests a progression, in which the donor's giving relationship with the organization evolves over time, from annual to major gifts. In recent years, however, some have questioned whether it applies in the case of the new philanthropists, whom we discussed in Chapter 1, or those motivated by hyperagency, as discussed in Chapter 3 (Schervish, 2008). Such donors may not begin with modest annual gifts and proceed up the pyramid in a predictable manner over a period of years. Indeed, some may provide major gifts or even principal gifts early in their relationships with organizations in which they have decided to invest, especially if that investment comes with their involvement in developing the organization's strategy.

Some also challenge the traditional view that broad-based methods, such as the Internet, are primarily useful at lower levels of the pyramid and see interaction with donors at all levels of the pyramid as more characteristic of a socially networked environment. Dixon and Keyes (2013) argue that the traditional donor pyramid implies a linear progression that no longer accurately portrays how donors are engaged:

> In practice, it turns out, a person's engagement with an organization is generally more continuous—and messy. It doesn't stop and start with discrete levels, and with the broad range of activities available to potential supporters today, it's actually preferable for people to be engaged on multiple levels.

The authors also emphasize the value of the influence individuals may have on the views and participation of others, as a result of their communication via social networks. That influence may give those individuals a high value to the organization, which the traditional pyramid model may not reflect (Dixon & Keyes, 2013).

However, the fundraising pyramid remains a central concept that is commonly applied. It may be most accurate to say that the pyramid describes how practitioners expect most donors to behave over time and provides a snapshot of a fundraising program in terms of the distribution of donor engagement at a given point. As discussed shortly, it also provides a useful tool for planning.

Pyramid of Programs

The solicitation programs discussed are shown on the left side of Figure 4.2. The annual-giving program works at lower levels of the pyramid, the major- and principal-gift programs toward the top. The planned-giving program is focused on prospects for major and principal gifts but also may operate at lower levels of the pyramid, perhaps with less intensity. For example, an organization usually promotes bequests to leadership-annual-fund donors and regular-annual-fund donors, even though they may not yet have made a major gift, especially if they have demographic characteristics that suggest a higher propensity toward planned giving.

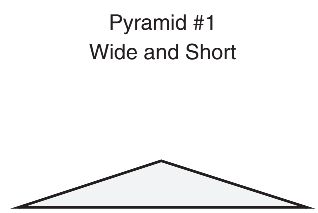
The pyramid also suggests how a nonprofit organization might build its fundraising programs over time. A nonprofit just beginning a fundraising program typically would start at the bottom of the pyramid, focusing on development of a constituency and soliciting annual gifts. But if the organization intends to become sustainable and grow, it will need to move up the pyramid, developing regular donors, upgrading their annual gifts, and building a group of leadership-annual-gift donors. It may defer establishing a major-gifts program until it has established a base of prospects for major gifts among its regular- and leadership-annual-gift donors, but as it grows it will be essential to cultivate and solicit such gifts, especially as capital needs arise. As stated earlier, only the most advanced development offices are likely to have a distinctive program focused on principal gifts.

Tool for Planning

A nonprofit with an established fundraising program may find the pyramid to be a useful tool of analysis in understanding the strengths and weaknesses of its program and determining where to allocate its fundraising efforts. The pyramid will have a different shape depending on an organization's constituencies and the array of fundraising programs it has developed (Kihlstedt, 2010).

The pyramid shown in Figure 4.2 is approximately equilateral; that is, its sides are about the same length. It depicts a mature and balanced fundraising program. A nonprofit with a pyramid something like it is operating at all levels, with programs for annual, major, and principal gifts. It is firing on all cylinders, continuously bringing in first-time donors and systematically moving them up the pyramid in order to provide a pipeline of prospects for major and principal gifts. But look at the three pyramids depicted in Figure 4.3.

FIGURE 4.3 Three Pyramids



An organization with a pyramid similar to Pyramid 1 (wide and short) has a large base of donors of modest amounts but few at higher levels. It may have done a good job of developing its annual-giving program, but it has few donors at higher levels. Fundraising is probably inefficient, since raising small gifts requires disproportionately high costs. And there are likely to be donors at the bottom of the pyramid who are financially capable of giving more, so the lack of a major-gifts program is likely to leave potential revenue on the table. Facing this scenario, the organization might consider increasing its efforts to develop more leadership-annual-gifts donors and major-gifts donors.

A nonprofit with a donor pyramid similar to Pyramid 2 (narrow and tall) has a small number of major donors and a not very wide base. This could be an unstable situation, since the loss of just a few major donors could result in a substantial loss of revenue, even threaten the organization's ability to survive. This organization should invest in developing a broader base of donors, both to protect itself from the loss of a current major donor and to build a pipeline of new donors who may move up the pyramid in the future.

Pyramid 3 is shaped something like a Hershey's Kiss. It is a healthy pyramid part way up—there is a base of donors at lower levels and in the middle levels, perhaps including leadership annual gifts. But then the pyramid narrows dramatically toward the top, suggesting few donors at the principal-gifts level. That may represent an untapped opportunity for an organization that does have major-gifts donors, some of whom might make principal gifts if the organization dedicates more sustained effort to deepening its relationship with them.

Pareto and the 80/20 Rule

The fundraising pyramid narrows at higher levels because the cells contain *fewer donors* at each successive level. But what if the pyramid were drawn to show the *revenue* generated by each level? It would be inverted, that is, upside down. In other words, in many programs, the higher levels generate more dollars than the lower levels, even though they include fewer donors.

This reality is often described in terms of the **Pareto principle**, named for an early twentieth-century economist who established that 80 percent of the wealth in Italy was controlled by 20 percent of the people (Weinstein, 2009). Although Pareto never stated this fact as any kind of a principle, others have interpreted his finding to mean that 20 percent of the effort in any endeavor accounts for 80 percent of the result. With regard to fundraising, the principle often is expressed as the **80/20 rule**, meaning that "80 percent of the funds raised will come from not more than 20 percent of the donors" (Weinstein, 2009, p. 5). But in recent years some have suggested that it be restated as the **90/10 rule**, reflecting the fact that major and principal gifts have become more important, accounting for a larger percentage of the total amount raised, especially in campaigns (Weinstein, 2009). The data generally support this principle, showing a substantial portion of total support coming from a relatively small number of donors. For example, in 2013, among colleges and universities reporting their fundraising results to the Council for Aid to Education, just twelve gifts on average accounted for 33 percent of all giving (Council for Aid to Education, 2014). And a 2007 study of giving to nonprofits found that 75 percent of "net profit" from fundraising programs was generated by just 10 percent of donors (Sauvé-Rodd, 2007). The underlying reality is that wealth and income have become increasingly concentrated in American society and, indeed, around the world. The capacity of a relatively few large donors may exceed the collective capacity of donors of smaller gifts.

The implications of the 80/20 or 90/10 rule are, again, worth considering, especially for nonprofits that have pyramids shaped something like Pyramid 1 or Pyramid 3. They may see significant increases in revenue from new programs that emphasize major and principal gifts, even with a relatively small volume of gifts at that level.

But the insight can be misapplied. Some nonprofit CEOs, especially in larger organizations that have sources of substantial earned income, sometimes may ask why it is useful to have an annual-giving program at all. The argument goes something like this: if 90 percent of gifts come from the top of the pyramid, why not just concentrate efforts on major and principal gifts rather than dissipate resources on the smaller gifts from annual giving that only account for 10 percent? The problem is, of course, that unless there has been an effective annual-giving program in the past, there are unlikely to be many prospects for major gifts. Even if there are, focusing exclusively on them would be short-sighted. Such a strategy would fail to develop first-time donors who then may become regular and leadership donors and emerge as prospects for major gifts in the future. Governing boards can provide important leadership by establishing goals that reward progress both in producing current gifts and in building the foundation for continuous fundraising success.

Proportionate Giving

The 80/20 or 90/10 rule also is related to another fundamental principle, **proportionate giving**, which was articulated by Seymour (1966). Simply stated, it means that people give in proportion to their financial capacity and that it is unrealistic to assume that donors all will give the same amount. In other words, donors are arrayed in a pyramid, not lined up on the same level.

A common but naïve assumption is that money can be raised using the multiplication table, for example, that a strategy for raising $1 million would be to obtain 1,000 gifts at $1,000 each. This would be unrealistic and undesirable for four reasons. First, obtaining 1,000 gifts at any level might be impossible for an organization with a small constituency.

Second, even if 1,000 gifts could be obtained, it is unlikely that every donor could afford to give as much as $1,000. Third, soliciting a $1,000 gift from someone who is wealthy would leave significant money on the table, since the donor could afford to give much more. Finally, and more subtlety, the strategy would not work because donors have a sense of their fair share and will give proportional to the goal, their own circumstances, and what others are giving. As an example, if I were to ask you to make a gift to my nonprofit organization and told you that the wealthiest family in town already had given $1 million, you might think that your fair and proportional share would be something like $100 or $10, depending on your financial situation. But if I told you that the family had given $100, you might think that your fair share should be something even less, maybe zero. This reality leads to the principle of *sequential fundraising*, a term introduced by consultant George Brakeley Jr. (1980).

The principle of proportionate giving again suggests that a model fundraising program operates at all levels, with principal, major, and leadership annual gifts establishing norms that will have an influence at the successive levels below.

THE FUNDRAISING PROCESS

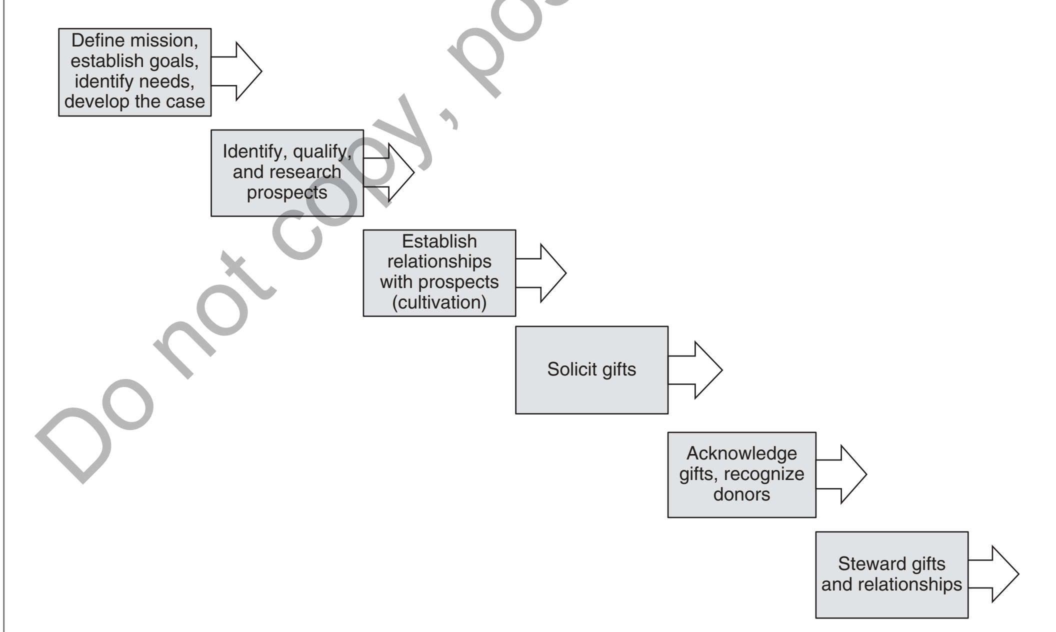
As noted earlier in this text, fundraising is not synonymous with solicitation. It is a process that begins with the organization or institution itself and includes continuous interactions with donors through a series of planned activities. In her pioneering textbook, Kelly (1998) emphasizes the latter point, writing, "Success is not attributable to happenstance, miracles, or unexplained phenomena; it is the result of planned action—well researched and systematically implemented" (p. 394).

Various authors, spanning decades of fundraising literature, have described the fundraising process in similar ways. For example, Broce (1986) describes the following steps: institutional goals, fundraising goals, prospect identification and evaluation, leadership and prospect involvement, case preparation, organization of the fundraising program, timetable for execution, and solicitation of gifts. Kelly (1998) identifies the steps as research, objectives, programming, evaluation, and stewardship, using the acronym ROPES to summarize them. Lindahl (2010) describes a similar model, including research, planning, cultivation, solicitation, stewardship, and evaluation. Seiler's (2011b) model includes fourteen steps: examine the case, analyze market requirements, prepare needs statement, define objectives, involve volunteers, validate needs statement, evaluate gift markets, select fundraising vehicles, identify potential giving sources, prepare fundraising plan, prepare communications plan, activate volunteer corps, solicit the gift, demonstrate stewardship, and renew the gift. Figure 4.4 provides a simplified illustration of the process, generally consistent with the models described by multiple authors. It does not depict evaluation as a step, on the assumption that evaluation occurs throughout implementation of the process.

The fundraising process is often described as a *cycle*, and indeed, it is with respect to a specific donor or group of donors. Stewardship blends into cultivation for the next solicitation of that donor, and the cycle is repeated throughout the relationship. But from the perspective of the organization managing its program, fundraising is an *ongoing* *process*, rather than a cycle. The steps may unfold sequentially with regard to a donor or group of donors, but they are all ongoing, concurrent, and overlapping with regard to the nonprofit's overall fundraising efforts. In other words, identification, cultivation, solicitation, acknowledgment, and stewardship activities are always underway with regard to some donors and prospects. For these reasons, the fundraising process is depicted here as somewhat different from the major-gifts fundraising cycle, which is discussed in detail in Chapter 7 of this book.

An additional clarification is important. Figure 4.4 may imply that the fundraising process is linear and unfolds in clear, orderly steps, but that is not the case in practice (Lindahl, 2010). It is iterative and often somewhat messy. For example, prospects are identified and evaluated throughout the process rather than in one step. Gifts may occur before the cultivation process has fully played out. Some solicitations may not receive an immediately positive response but may turn out to be a step in the cultivation process, leading to another solicitation and a gift at a later time. The organization must define its mission, goals, needs, and case at the beginning of the fundraising process, but it also may need to revisit those questions from time to time, as feedback from its philanthropic market may dictate. Remember that fundraising involves people and relationships, which often do not accommodate to rational models.

FIGURE 4.4 Fundraising Process



Note: Various authors have described the fundraising process, with similar components (e.g., Broce, 1986; Kelly, 1998; Lindahl, 2010; Seiler, 2011b). This figure includes features common to many other versions but is the author's creation and is not specifically attributable to any other author.

Preparing the Organization

The fundraising process begins with the organization itself. Its mission, goals, and programmatic objectives must be clearly defined, which is often accomplished through strategic planning. And a persuasive case for support must be developed. These activities are discussed in more detail in the next chapter.

Identifying and Researching Prospects

The next step is to identify prospective donors, usually called simply **prospects**. As discussed, the selection of donor constituencies to be emphasized must reflect the organization's resource needs. It is also essential to identify those prospects with the highest potential for the organization, those who are a part of its constituency. Not every corporation, foundation, and individual in the world is a prospect for a given organization. Indeed, proceeding without identifying a **target audience** for a nonprofit's fundraising would be exceedingly inefficient and ineffective; it would be equivalent to walking through town holding a bucket and hoping that money will fall from the sky. In addition to identifying prospects, the process includes undertaking research on those prospects in order to further evaluate their capacity and possible interests, as aligned with the organization's needs. Prospect research and evaluation also are discussed in more detail in the next chapter.

Establishing Relationships (Cultivation)

Once prospects have been identified, the organization establishes and develops relationships with them before proceeding to solicit gifts. That relationship building is called **cultivation**. The term may carry unfortunate overtones of manipulation or cynicism, but cultivation of prospective donors is not a matter of disingenuous schmoozing; rather, it requires substantive and sincere engagement with individuals (Kelly, 1998).

The importance of cultivation varies with the size and purpose of the anticipated gift. If the objective is a major gift, then the cultivation may be intense and prolonged. But if the objective is a modest gift, cultivation may be a small part of the process. For example, think about the last phone call you may have received soliciting a gift. The caller probably did not begin by just saying, "Give me money." More likely, he or she began the conversation by asking, "How are you this evening?" before proceeding to ask for your gift. The caller did devote at least some effort to establishing a relationship, that is, cultivation, although in this case it was necessarily brief. The friendly opening question probably made you feel somewhat more receptive (Simmel & Berger, 2000). But if a nonprofit wanted you to give a larger gift, you might expect that someone would come to see you and stay for a while, perhaps on more than one occasion. Cultivation is at the heart of major-gifts fundraising and is discussed again in more detail in Chapter 7.

Solicitation

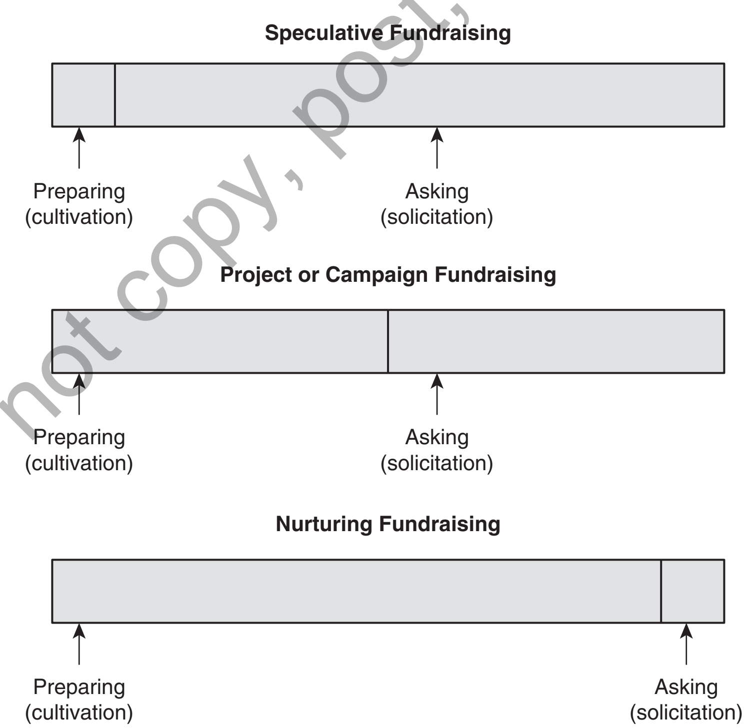
Solicitation (asking for the gift) is a pivotal step in the process. As discussed earlier, a variety of methods can be employed, with varied effectiveness, and their selection is related to the overall fundraising strategy. With regard to the fundraising process, the central question about solicitation is timing. Weinstein (2009) defines the "right time" for a solicitation to occur as when the solicitor has developed a "positive relationship" with the prospect (p. 5). Fredericks (2010) likewise places the emphasis on donor readiness, writing that "you must ask when the person is ready to be asked not to fulfill a quota of the number of [solicitations] or to reach a fundraising goal" (p. 18). In other words, cultivation and solicitation need to be in correct proportion, so that the solicitation is not premature but also not deferred indefinitely or past the time when a donor's interest has peaked.

Three Solicitation Strategies

Dunlop (2002), whose writing defined many of the concepts applied in major-gifts fundraising, addresses the question of how cultivation and solicitation should be balanced with regard to three types of gifts—regular gifts, special gifts, and ultimate gifts. Remember that regular gifts are tied to the calendar, special gifts are tied to the needs of the organization, and ultimate gifts are tied to the circumstances of the donor.

Figure 4.5 depicts three solicitation strategies, which Dunlop (2002) calls methods, appropriate to each type of gift. What Dunlop calls **speculative fundraising** is the typical

FIGURE 4.5 Three Solicitation Strategies



Source: Dunlop, D. R. (2002). Major gift programs. In Worth, M. J. (Gen. Ed.), *New strategies for educational fund raising*. Westport, CT: American Council on Education and Praeger Publishers, pp. 89–104.

strategy at lower levels of the pyramid; it is characteristic of annual-giving programs. In speculative fundraising, most activity is related to soliciting, receiving, and acknowledging the gift. Little time is devoted to preparing the prospect for solicitation, that is, on cultivation of the relationship. It is exemplified by the telemarketer in the earlier example, who may confine cultivation to the single question of how you are this evening. The brevity is necessary because this strategy requires a high volume of solicitations. It is speculative because the high volume of solicitations is based on the assumption that some percentage of people will respond.

Fundraising for special gifts, which Dunlop (2002) calls **campaign or special project fundraising**, requires committing more time and effort to prepare the donor than that needed in speculative fundraising. The volume of solicitations is lower, and since the gifts are usually larger than the donors' regular gifts, the details of the project need to be discussed in some detail, which requires time. But the solicitation must be made within some reasonable period, since the gift is needed in order to complete the project. Thus, as shown in Figure 4.5, the preparation (or cultivation) phase and the asking (or solicitation) phase of the process may be roughly balanced.

What Dunlop (2002) calls **nurturing fundraising** is an approach most appropriate to the solicitation of ultimate gifts from longtime donors to the organization. The emphasis is on preparing the donor, an activity that may continue for a long time, even many years. Solicitation of an ultimate gift may be a small component of an organization's interaction with a donor over a lifetime of involvement and support. Indeed, it may be that the relationship nurtured is so close and strong that a solicitation may not even be necessary; the donor's gift may simply evolve from his or her overall interactions with the organization.

Sequential Fundraising

The principle of proportionate giving is closely related to a fundamental principle of solicitation: **sequential fundraising**, a term introduced by Brakeley (1980). Sequential fundraising (also sometimes called sequential solicitation) describes the ideal order in which gifts should be solicited from various donors. It is especially important in campaigns, but it can be applied as well in noncampaign solicitation.

Simply stated, sequential fundraising requires that gifts be solicited from the top down and from the inside out. In other words, larger gifts should be solicited before smaller gifts, and those who are closest to the organization should be solicited before those whose connections are less strong.

Why top-down? Think again about my earlier example involving you and the wealthiest family in town. It might be best to solicit that leading family before coming to you, since the size of your gift might be determined at least in part by how much they have given. Gifts in the higher levels have a positive impact on the decisions of donors at lower levels. Of course, you would explain this reality to the wealthiest family when you solicit their gift, since their decision is critical to the success of the overall effort.

Why solicit inside out? Again using the example of the wealthiest family in town, assume that a member of that family is indeed on the board of the organization raising the funds. In that circumstance, if I tell you the family member has given \$100, or that he or she has not given at all, you would probably take that as a signal that the person does not think it to be an important cause. You might even be somewhat offended to be asked to support an organization that has a member of a wealthy family on the board when you learn that the family member has not made any gift. You might tell the solicitors to come back when that family has made a financial commitment to support the purposes for which a family member presumably voted as a member of the board. For this reason, the leadership and example of those closest to the organization and those who have the capacity to make gifts in the upper ranges of the pyramid are critical to the success of the overall fundraising effort.

Again, the principle of sequential fundraising has its origins in the observations of practitioners, where it has been long established and firmly advocated. But how can it be explained in terms of theory? Thinking back on the discussion of social influences on giving from Chapter 3, it could make sense. People follow the example of others whom they admire or with whom they wish to be associated (Bekkers & Wiepking, 2011; Seymour, 1966). But for some scholars, the effectiveness of sequential fundraising has presented a logical puzzle (Vesterlund, 2003). If donors are giving to meet public needs, then economic theory predicts that informing them of previous gifts would diminish their responses; they might assume that the needs have been met, so their own gifts are less important. They might not give at all or give less than if they were not told about what others had done. The best fundraising practice then would be to not tell donors what has already been given (Varian, 1994). Some theorists have suggested that announcing donors' gifts provides them with prestige and helps to signal their wealth to others (Silverman, Robertson, Middlebrook, & Drabman, 1984). But that would be true even if all gifts were just announced after the fact. What accounts for the reality fundraisers observe, that gifts are higher if donors are told who has *already given* and how much? Vesterlund (2003) suggests this occurs because the announced gifts of previous donors indicate to other donors that the organization is of high quality and worthy of support; in other words, it validates and legitimizes the organization and the cause. This is especially true if early donors are prestigious individuals (Kumru & Vesterlund, 2010). That accounts for why top-down works, but what about inside out? Assuming that an organization's governing board is the pinnacle of that organization's community (i.e., including a member of the wealthiest family in town) then its members will be among the most prestigious by virtue of their positions on the board and also the most knowledgeable about the merits of the cause. Putting this theory together with practitioners' observations, things make sense. If the board and other insiders have not given, a prospective donor might interpret that as a *negative* indicator of the worthiness of the cause.

Acknowledgment, Recognition, and Stewardship

The fundraising process does not end when the donor makes a gift. Acknowledging the gift promptly and appropriately influences how the donor feels about making it and establishes a foundation for future solicitations. Recalling the norm of reciprocity discussed in Chapter 3, a thoughtful expression of thanks is likely to be the minimum return a donor would expect (Gouldner, 1960). The absence of it could be interpreted as either poor management or ingratitude. The **acknowledgment** includes sending a formal receipt but also expressing thanks in a more personal way, usually by mail, e-mail, or phone or in person. It is what Burk (2003) calls "private affirmation that the donor is appreciated" (p. 98). Although the original source is obscure, it is a common fundraising maxim that a donor should be thanked seven times before a new gift is solicited. The acknowledgments may include written communications, phone calls, online acknowledgment, personal visits, and various types of events ("Donor Acknowledgement," 2014).

Acknowledgement of a gift is the first step in **stewardship**. Stewardship encompasses two components—using the gift for its intended purpose and maintaining continuous communication with the donor in order to sustain and enhance the relationship. Because the cost of acquiring new donors is higher than the cost of renewing the support of previous donors, nonprofits have placed a greater emphasis on stewardship in recent years. As Burk (2003) reports, "About 50 percent of donors do not renew their gifts after making a first contribution and, by the time of the fifth [subsequent solicitation], about 90 percent have stopped giving to the charities that once elicited their support" (p. 19). She observes that "driving home the same messages of 'give, give, give' without satisfying donors' needs for more information on the effectiveness of their giving keeps donor attrition high and prevents not for profits from raising so much more money" (p. 19). Burk's study found evidence of this phenomenon: 46 percent of donors surveyed indicated that they had stopped giving to an organization because they lacked information on how their gifts were used or felt unappreciated, while 93 percent said they would give again if they were provided sufficient information and 74 percent said they would continue giving indefinitely if the organization continued to provide the information they desired (Burk, 2003).

What about donor recognition—what Burk (2003) calls the "public acknowledgement of donors"? (p. 98). How important is it? Specifics of donor recognition are discussed in later chapters, in the context of annual, major, and planned giving, but there is consensus among practitioners that it is generally important. This is reflected in the widespread practice of listing donors by levels and including them as members of giving societies based on the amount of their gifts. Does research support this assumption? Students may remember from Chapter 3 that Harbaugh (1998) found in his studies that recognition does matter. Indeed, he developed an econometric model to predict how donors' needs for prestige might cause them to increase their gifts in order to gain greater recognition. Harbaugh's work thus provides support to the traditional maxims of fundraising practitioners.

The principles discussed in this chapter cut across the various solicitation programs and are revisited in the context of those programs in later chapters. The next chapter focuses on the first steps in the fundraising process: preparing the organization itself and identifying and developing prospects.

CHAPTER SUMMARY

Most principles of fundraising, and central concepts and terms, have been developed in the field of practice rather than through research.

Gifts may be classified four ways: by amount (*annual gift*s, *leadership annual gifts*, *major gifts*, *principal gifts*); by purpose (*unrestricted* support, *restricted* gifts or grants to support current programs and projects, gifts for *physical capital*, and gifts for *financial capital*); by the donor's perspective (*regular gifts*, *special gifts*, *ultimate gifts*) (Dunlop, 2002); and by the donor's method in making the gift (*outright*, *pledge*, *planned gift*). Planned gifts may be *outright planned gifts*, *expectancies*, or *deferred gifts* (Regenovich, 2011). Nonprofits raise funds for the four purposes; this is called the "*four-legged stool*" (Seiler, 2011a).

Most development offices maintain three core solicitation programs: annual giving, major gifts, and corporate and foundation support. Some have a distinct program for principal gifts, but most raise them as part of the major-gifts program. Larger development offices may have separate programs for corporate support and for foundation support. Planned giving is a strategy used in major-gifts fundraising, although it may be called a program. Other programs, such as prospect research and stewardship, support the core solicitation programs.

Each solicitation program focuses on particular types of gifts and donor constituencies. Individuals are the primary source of unrestricted gifts, although corporations and foundations also provide such gifts under certain circumstances. Corporations and foundations are more likely to support programs and projects. Individuals are the primary source of gifts for physical capital projects and almost the only source of gifts to endowment. Nonprofit organizations emphasize those programs most relevant to their financial needs but also should develop comprehensive fundraising programs to build capacity and assure sustainability.

Relationships with donor prospects are best managed within one of the programs, depending on prospects' financial capacity and connection with the organization. Those with limited financial capacity are prospects for annual gifts; among those, prospects with a strong connection may become leadership annual donors. Those with high financial capacity and a strong connection are prospects for major and principal gifts. Those with capacity and a weak connection may support programs or projects of interest to them.

The most common methods of solicitation include *direct mail*, *phone (telemarketing)*, *electronic communication* (primarily e-mail), *events*, *personal solicitations*, and *proposal writing*. The more personal the method is, the more effective it is likely to be, but costs need to be considered as well.

The *fundraising pyramid* provides a useful tool for analyzing an organization's fundraising situation. Donors begin their relationship with the organization by making a first-time gift. They may rise up the pyramid over time, becoming regular donors, leadership annual donors, major donors, and principal donors. But the pyramid narrows toward the top, since not all donors will increase their giving in the manner implied. Nonprofit organizations usually begin their fundraising with an annual-giving program that operates at lower levels of the pyramid and then build major-gifts programs once a base of donors has been established. The shape of the pyramid of donors can highlight areas of strength and weakness in the organization's fundraising program and help guide efforts to strengthen it. Dixon and Keyes (2013) argue that social media is challenging the linear model portrayed by the pyramid and propose an alternative model of how donors engage with nonprofits today.

Pareto's principle suggests that 80 percent of gifts come from 20 percent of donors toward the top of the pyramid; some people say the ratio is closer to 90/10 today (Weinstein, 2009). But this should not be viewed as justification for not undertaking fundraising programs at lower levels, which helps to build a pipeline of donors for the future. The *90/10* or *80/20 rule* is related to *proportionate giving* (Seymour, 1966), which explains that people give in proportion to their financial ability. For this reason, it is not realistic to think that funds can be raised with equal gifts from many donors, that is, fundraising by the multiplication table.

Fundraising is a process that includes preparing the organization, identifying and researching prospects, developing relationships (cultivation), solicitation, acknowledgment and recognition, and stewardship. Stewardship is cultivation for the next gift. But the steps in the process may not always unfold linearly (Lindahl, 2010).

A central issue is the timing of solicitation and the balance of cultivation and solicitation. Three strategies include s*peculative fundraising*, which emphasizes solicitation; *campaign or project fundraising*, in which cultivation and solicitation are balanced; and *nurturing fundraising*, which emphasizes the relationship with the donor (Dunlop, 2002). *Sequential fundraising* requires that gifts be solicited from the top down and inside out, with the largest donors and those who are close to the organization establishing examples that affect the gifts of others (Brakeley, 1980). Some economic theorists believe this is true because the commitment of previous donors, especially if they are prestigious individuals, indicates to others that the cause is worthy.

Stewardship and donor relations have become more important in recent years because 50 percent of first-time donors do not renew their gifts (Burk, 2003). Stewardship includes both the organization's effective use of the gift and continued attention to the relationship with the donor. Both practitioner wisdom and research (e.g., Burk, 2003; Harbaugh, 1998) hold that donor recognition is important.

Key Terms and Concepts

80/20 rule
90/10 rule
Acknowledgment
Annual fund (sustaining fund)
Annual gifts
Annual giving
Campaign or special project fundraising
Cultivation
Deferred gift
Direct mail [as solicitation method]
Direct marketing
Donor constituencies
Electronic communication (e-mail) [as solicitation method]
Events [as solicitation method]
Expectancies
Four-legged stool
Fundraising pyramid
Grant writing
Grantsmanship
Ladder of effectiveness
Leadership annual gifts
Leadership annual giving (LAG)
Major gifts
Nurturing fundraising
Outright gift
Outright planned gift
Pareto principle
Personal solicitations [as solicitation method]
Phone (telemarketing) [as solicitation method]
Planned gift

Planned giving
Pledges
Principal gifts
Proportionate giving
Proposal writing [as solicitation method]
Prospects
Recognition [of donors]
Regular donors
Regular gifts
Restricted gift
Request for proposal (RFP)
Sequential fundraising
Solicitation
Special gifts
Speculative fundraising
Sponsorships
Stewardship
Target audience
Ultimate gift
Unrestricted gift

Case 4.1: United Nations Foundation

Speaking to an audience of dignitaries at a 1997 black-tie dinner in New York, Cable News Network founder Ted Turner made a dramatic announcement. He would give $1 billion over ten years to benefit United Nations programs aiding refugees and children, clearing land mines, and fighting disease (Rohde, 1997). Although the gift would be used for programs, not to support the UN's operating expenses, the amount would be about equivalent to the United Nations' annual budget (Rohde, 1997). Turner's gift was one of the largest in history to that time and has been cited for having inspired later large-scale philanthropy by Bill and Melinda Gates, Warren Buffet, and other wealthy businesspeople (Kristoff, 2012).

Turner's gift was used to create the United Nations Foundation, a nonprofit public charity. In its early years, the foundation operated as a traditional grant maker but subsequently built partnerships to develop new programs directed at keeping girls in school, preventing child marriage, increasing education and access related to reproductive health, providing clean and affordable energy, and reducing or eliminating diseases such as measles, malaria, and polio. The foundation also engaged in advocacy campaigns to promote support for the UN (United Nations Foundation, 2012). Many of the foundation's efforts were undertaken in partnership with corporations and other nonprofit organizations, including the ExxonMobil Foundation, ABC News, Mashable, Johnson and Johnson, the National Basketball Association, the United Methodist Church, the American Red Cross, and the Bill and Melinda Gates Foundation (United Nations Foundation, 2012).

The UN Foundation raised additional funds to supplement Mr. Turner's annual pledge, but the results of these efforts grew slowly, from $67 million in 2008 to $72 million in 2012 (Daniels, 2014). As the final payment on Mr. Turner's initial $1 billion pledge approached, in 2014, the foundation focused on expanding its efforts to develop additional sources of philanthropy in order to secure its future.

One strategy included hiring relationship managers to deepen the foundation's connections with corporations, with the goal of establishing ten "anchor donors" (Daniels, 2014). The foundation also planned to expand online advocacy and fundraising. And, in 2011, it established the Global Entrepreneur's Council to involve younger donors. Members of the council are business leaders from around the world younger than age forty-five. They serve a term of two years, providing the opportunity to continually engage new people. Some members of the council became donors themselves and others helped to secure support from others. For example, one helped to create a Donors Advisors Fund to help reach more wealthy philanthropists, and another used his connections in Hollywood to increase the foundation's visibility among celebrities (McCorvey, 2013).

Richard Parnell, the foundation's chief operating officer in 2014, described the strategy for expanding sources of support, saying, "The dollars are important, but it always goes back to relationships, relationships, relationships" (Daniels 2014).

Case 4.2: Mitchell Family and the University of South Alabama

Brothers Mayer and Abraham Mitchell founded a real estate business in 1958, in their hometown of Mobile, Alabama. The business was highly successful, and in 1985, the brothers sold the company and focused their efforts on philanthropy. Although they were not alumni, Abraham, Mayer, and Mayer's wife Arlene became interested in the University of South Alabama, located in Mobile (University of South Alabama website).

Gordon Moulton became a professor at the university in 1966 and became president in 1998. Moulton established a close relationship with the Mitchell family. Mayer Mitchell served on the college's board and was succeeded by his wife after his death in 2007. Abraham Mitchell also enjoyed a close relationship with Moulton and sometimes attended board meetings and university events (Blum, 2014).

The Mitchell family was generous in its support of the university over many years. In 1999, they endowed the college of business, which was named for them. That same year, Abraham Mitchell established a scholarship fund that is today the university's largest privately funded scholarship program. The family continued to support various programs and units at South Alabama, including the cancer research institute, a sports arena, and others. By 2011, the family's total giving to the university was approximately $40 million (University of South Alabama website).

In 2011, President Moulton and his chief development officer began to consider another proposal to Abraham Mitchell. Knowing Mitchell's interest in scholarships, in 2012, Moulton sat down for a conversation with him. They discussed the need for scholarships, but no amount was mentioned initially. After subsequent conversations they decided that a fund of $50 million would be required to have the impact both wanted. Mitchell committed to a gift of $25 million to be paid over five years, on the condition that the university matched it with $25 million in gifts from others. Mr. Mitchell subsequently decided to provide for another $25 million in his estate plan. These commitments increased the Mitchell family's total support to the University of South Alabama to $93 million (Blum, 2014).

It was Mitchell's decision to name the scholarship program the Mitchell-Moulton Scholarship Initiative in honor of his long relationship with President Moulton. Addressing Moulton, Mitchell said, "We are grateful for the lives you have touched through your leadership and vision for higher education. I personally appreciate that you have demonstrated to me the value of investing in such a worthy endeavor as the University of South Alabama." President Moulton passed away shortly after, in 2013 ("University of South Alabama Press Release," 2013).

In 2014, the university engaged in fundraising to secure the gifts needed to match Mitchell's pledge, and both the president and chief development officer remained in close touch with him, both informally and by inviting him to meetings on campus to get updates on the scholarship program. Reflecting on his experience in an interview, Mr. Mitchell advises fundraisers to present donors with well-formulated proposals, to provide regular reports on their results, and to stay connected with their donors (Blum, 2014). Bronze statues of Mayer and Abraham Mitchell now stand on the South Alabama campus as a lasting tribute to their support.

Questions for Discussion

1. If you were asked to make a gift, or to provide voluntary service, how important would it be to you to know who has already given or who is already involved as a volunteer? How would you react if you were told that you were the first one to be asked? Why?
2. In Case 4.1, what might have been the shape of the fundraising pyramid at the UN Foundation as it considered new efforts to broaden support after the conclusion of Ted Turner's pledge? How do the efforts described in the case relate to various levels of that pyramid?
3. Given the nature of the UN Foundation's activities described in Case 4.1, if you were planning its fundraising program what emphasis would you place on corporate, foundation, or individual donor prospects? Why?
4. In what ways does Case 4.2 of the Mitchell family and the University of South Alabama reflect the concepts of nurturing fundraising, ultimate gifts, and principal gifts?
5. How is the fundraising process described in this chapter reflected in the relationship between the Mitchell family and the University of South Alabama? Does the process appear to have unfolded linearly?

Suggestions for Further Reading

Books

Alexander, C. D., & Carlson, K. J. (2005). *Essential principles for fundraising success*. San Francisco: Jossey-Bass.

Broce, T. E. (1986). *Fund raising: The guide to raising money from private sources* (2nd ed.). Norman: University of Oklahoma Press. (Note: This book is dated but considered a classic, which is still widely quoted.)

Seymour, H. J. (1966). *Designs for fund-raising*. New York: McGraw-Hill. (Note: This book is dated but considered a classic, which is still widely quoted.)

Weinstein, S. (2009). *The complete guide to fundraising management*. Hoboken, NJ: John Wiley & Sons.

Articles

Dixon, J., & Keyes, D. (2013, Winter). The permanent disruption of social media. *Stanford Social Innovation Review*. Retrieved March 19, 2014, from http://www.ssireview.org/articles/entry/the_permanent_disruption_of_social_media.

Vesterlund, L. (2003, March). The informational value of sequential fundraising. *Journal of Public Economics, 87*(3–4), 627–657.

Website

The AFP Fundraising Dictionary: http://www.afpnet.org/ResourceCenter/ArticleDetail.cfm?ItemNumber=3380 (Note: Access requires AFP membership; some cached versions also may be available on the web.)

Notes

1. For fundraising purposes, the term *unrestricted* has a different meaning from that used for accounting purposes. In fundraising, unrestricted is synonymous with "unspecified" or "undesignated" (CASE, 2009, p. 46).

2. "Fundraising program" is commonly used as an umbrella term to refer to all fundraising-related activities of the organization. For example, Certified Fund Raising Executive (CFRE) International defines it as "an organization's or institution's strategy, tactics, objectives, case, and needs in their entirety; a campaign that is loosely defined in terms of time frame and specific funding opportunities; a campaign; a timetable for a campaign" (http://beta.cfre.org/wp-content/uploads/2013/05/bgloss.pdf). This umbrella use of the term should not be confused with the *solicitation programs* described in this chapter.

3. Alexander and Carlson (2005) make a distinction between the *annual fund* (the money raised for operating support) and the *annual campaign*, which they say includes, by definition, face-to-face solicitations involving volunteers. Others (e.g., Williams, 2004, p. 39) use the term *annual giving* as synonymous with *annual campaign*. These distinctions are discussed further in Chapter 6.

4. Colleges and universities traditionally have solicited one annual-fund gift each year, but some do solicit an additional gift or gifts within the same fiscal year.

5. The vocabulary of fundraising is unsettled. That is exemplified by the fact that various authors who write about fundraising use different terms to identify what this text calls *methods*. Sargeant, Shang, et al. (2010) use "methods" (p. xxv). Seiler (in Tempel, Seiler, & Aldrich, 2011) uses "vehicles," "strategies," and "methods" interchangeably (p. 14). Weinstein (2009) calls some methods "strategies" (p. 185). Kelly (1998) makes a spirited case for "techniques" and criticizes the use of "methods" (p. 41).

This book uses the term *method* to describe mail, phone, and electronic communication; events; and personal solicitations. It uses *techniques* to describe practices that are more technical. For example, CFRE defines a "telephone-mail campaign" as "a fundraising *technique* that combines mail and telephone solicitation in a sophisticated manner through the use of paid solicitors and management of the program; a telephone solicitation supported by a mail component for confirmation of verbal pledges" (italics added; http://beta.cfre.org/wp-content/uploads/2013/05/bgloss.pdf). That is consistent with the vocabulary used in this book. Phone and mail are both methods; the way in which they may be combined is a technique.

6. The fundraising pyramid is a concept described and illustrated by many authors (e.g., Alexander & Carlson, 2005, p. 17; Ciconte & Jacob, 2009, p. 102; Hogan, 2008, p. 10; Sargeant, Shang, et al., 2010, p. 331; Seiler, 2011a, p. 45; Williams, 2004). The manner in which levels are depicted and labeled varies widely, and it is impossible to attribute the concept to any one source. The pyramid depicted here is this author's version, which includes some features found in other versions.