Financing Not Fundraising

Vol. 1

Nell Edgington

A Social Velocity E-book

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Inside this e-book

What is Financing Not Fundraising?

In the midst of an incredibly challenging economic situation that is not getting better any time soon, I'd like to outline a new vision for how the nonprofit sector gets funded. Fundraising in its current form just doesn't work anymore. Indeed, traditional fundraising is holding the sector back by keeping nonprofits in the starvation cycle of trying to do more and more with less and less.

Really, what the sector needs is a financing strategy not a fundraising strategy. By that I mean that nonprofits have to break out of the narrow view that traditional FUNDRAISING (individual donor appeals, events, foundation grants) will completely fund all of their activities. Instead, nonprofits must work to create a broader approach to securing the overall FINANCING necessary to create social change.

What does this new approach to financing the nonprofit sector look like? It looks like this:

1. **Create A Financial Strategy**.

   Nonprofits understand that funding programs and general operating expenses is not enough to survive and thrive. All activities that bring money in the door (individual donors, foundation grants, earned income, government contracts, loans etc.) are integrated and part of a larger financing strategy that supports the short AND long term goals, as well as the programs AND infrastructure of the organization.

2. **Align Money and Mission.**

   Nonprofits no longer segregate fundraising from their other activities (programming, administration). All elements of a nonprofit's operations, including the moneymaking ones, are fully integrated and moving forward together.

3. **Find Individual Donors.**

   Individuals, who make up 80%+ of the private money entering the sector, become a greater focus of fundraising efforts rather than corporate or foundation philanthropy (which make up 5% and 12%, respectively, of the private money entering the sector).

4. **Develop a Message of Impact.**

   Fundraising messaging moves from an emphasis on the tin-cup mentality and donor benefit, to an emphasis on the social impact a nonprofit is creating.

5. **Raise Money for Building Capacity.**

   Money is raised to support not only the direct services that a nonprofit provides, but also the infrastructure (staff, technology, systems, evaluation, training) of the organization. Nonprofits understand that they will only get better at delivering impact if they have an effective organization behind their work.

6. **Explore New Types of Money.**

   Other types of financial vehicles like loans and equity are added into a nonprofit's financing mix.

7. **Evaluate Earned Income.**

   Earned income opportunities are evaluated and, if appropriate, launched. Earned income is not right for every nonprofit, but it is worth exploring and analyzing opportunities as they come and understanding and being open to the revenue-generation possibilities.

8. **Calculate Net Revenue.**

   The net revenue of every moneymaking activity a nonprofit engages in (events, individual fundraising appeals, corporate sponsorships, earned income, etc.) is calculated and evaluated. Low net revenue activities are replaced with higher net endeavors.

9. **Move From Push to Pull.**

   Nonprofits move away from "push" fundraising and marketing efforts that force their message on innocent bystanders (like direct mail appeals) and towards "pull" fundraising and marketing efforts that bring interested donors/prospects to the organization (like blogs, Twitter, Facebook, friend-raising events, etc.)

10. Stop Lying to Donors.

    Nonprofits get brutally honest with their donors about the realities they face and what they really need to achieve results.

This *Financing Not Fundraising, volume 1* e-book outlines these 10 steps. The later volumes in the Financing Not Fundraising e-book series delve into the Financing Not Fundraising concept in more detail and give you concrete actions for moving your nonprofit from fundraising to financing.

So let's get started by taking these 10 steps one at a time.

Create a Financial Strategy

A core element of Financing Not Fundraising is a financial strategy. In essence, a financial strategy is a key part of, not separate from, a nonprofit's strategic plan. That means that the goals of the strategic plan are created with the full knowledge of:

1. What it will cost to reach those goals, and
2. How the money to cover those costs will be secured

A financial strategy differs from a fundraising plan in a number of ways. A financial strategy, unlike a fundraising plan:

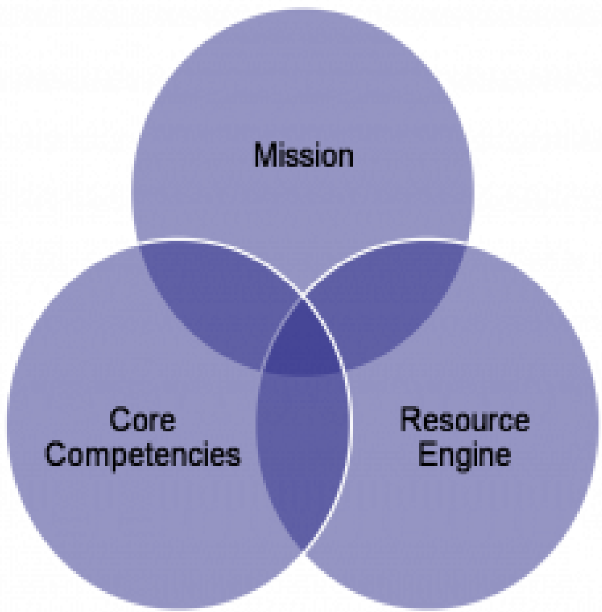
- Includes ALL activities that bring money in the door (individual donors, foundation grants, earned income, corporate sponsorships, government contracts, loans, etc.)
- Fully integrates them into an overall strategy and execution plan
- Supports the short AND long term goals of the organization
- Funds the programs AND infrastructure (systems, planning, staff, technology) of the organization
- Understands the characteristics and uses of different kinds of money and employs each available financial vehicle in the most effective way
- Employs money-securing activities that are in line with, not opposed to, the core competencies of the organization

What I am suggesting is that nonprofits stop exhausting their boards, staffs, donors, friends, and clients with a series of disjointed activities that are meant to raise money, but actually just end up making poor use of a nonprofit's already limited resources. Instead, nonprofits need an integrated, thoughtful, strategic financing plan that makes social impact a reality.

Align Money and Mission

The next piece of the puzzle is to create alignment in your nonprofit organization between mission (what you exist to do), core competencies (what you do better than anyone else in the world), and money (how you sustain yourself financially).

An organization in alignment looks like this:



The mission is supported by the organization's core competencies, which both feed into how the organization brings money in the door.

When one or two of these three elements are out of alignment, chaos can ensue. For example:

Mission is misaligned: An organization that can generate money and operates great programs, but can't bring it all together in a coherent single purpose, this is otherwise known as "mission creep."

Core competencies are misaligned: An organization that has a great, clear idea of what they do (mission) and can raise money around it, but can't deliver. This is reminiscent of the dot com era when there were countless businesses with fabulous ideas that successfully raised VC or angel money, but didn't really have a core competency or product to deliver and eventually went bust.

Resource engine is misaligned: This final misalignment is the one nonprofits are most familiar with. An organization has a great mission and can produce great results, but they can't find a way to make the organization financially sustainable.

And it is this money misalignment where Financing Not Fundraising comes into play. Traditional nonprofit fundraising is often an example of money misalignment. It looks like this:

- The development staff (money) and program staff (mission) sit in separate parts of the building, rarely talk to each other, and make their respective decisions without consulting the other.
- The board and non-fundraising staff disdain money and refuse to participate in bringing it in the door.
- A nonprofit creates fundraising events that have nothing, or very little, to do with the mission of the organization.
- A nonprofit raises money around gimmicks and donor benefits instead of around the mission and impact of the organization.
- The organization's strategic plan only contains goals for program delivery (mission), not how to finance that delivery (money).

And that's just a beginning list. Shoving money to the side and ignoring it is the equivalent of a business owner saying they don't need to pay attention to sales. "Nonprofit" means that individuals (private owners or shareholders) don't gain financial benefit, it doesn't mean that the entity doesn't make money.

To get money back in alignment with mission and competencies nonprofits need to do several things:

1. Embrace the idea that money is not a necessary evil to your organization, but rather an equal and supportive partner to your mission.
2. Train your entire board and staff on money in the nonprofit sector in general, and how money comes in the door at your specific organization.
3. Make sure that your strategic plan has a realistic and thoughtful financial strategy attached to it.
4. Move fundraising activities and special events away from convoluted ways to extract money from people, and towards celebrating and educating the community about the impact you are achieving.
5. Be up front with board members, donors and staff about how much it costs to fund every aspect of the organization's operations and the various ways that money offsets those costs.

Instead of separating money from the “true work” of the organization, nonprofits must fully integrate financing into their mission.

Find Individual Donors

Individual donors are the most untapped, greatest sustainable funding opportunity facing the nonprofit sector. Individual donor dollars make up approximately 80% of the private money entering the nonprofit sector each year, compared to approximately 5% from corporate dollars and 12% from foundation dollars. Yet many nonprofit organizations don't know how to effectively embrace the full opportunity of that market.

Here are five steps to get you started:

1. **Move Beyond Direct Mail.**

   While direct mail used to be the only way to find individuals willing to support your cause, there are now many additional channels you must explore to stay relevant (email, blogs, Facebook, Twitter, etc). Beth Kanter and Allison Fine's book *The Networked Nonprofit* makes a fundamental argument about how nonprofit organizations can use social media to leverage people outside of the organization (donors, volunteers, supporters) to build momentum (resources, funds, mind-share, advocacy) for their cause. If nonprofits more effectively use social media to build their networks, individual donor fundraising could be revolutionized.

2. **Don't Separate Donors From Other Supporters.**

   Just as fundraising is often separated from the program work of the organization, donors are also often kept separate from other organization supporters. Volunteers are often left off funding appeals for fear of asking them to do "one more thing" for the organization. And funders are not asked to become volunteers or advocates. Instead of putting organization supporters into silos, open all opportunities to everyone. Better yet, ask (or allow) supporters to create their own ways to accelerate the work of the organization (like tapping into their own networks to help). Once integrated, the possibilities for building support are endless.

3. **Stop Fearing the Major Donor.**

   Many nonprofit organizations would love to have major individual gifts coming in the door, but don't know how to find and solicit those donors. The process, once understood, is actually pretty simple. You must identify, qualify, cultivate, solicit and, most importantly, steward donors. Use your board, volunteers, and supporters to help identify and qualify people who meet three criteria:

1. Belief in the organization's cause
2. Connection to a person at the organization
3. Personal capacity to give at your major donor level

Once board, friends, supporters are involved in a well-defined process, major donors are sure to follow.

4. Get Your Board Focused.

Boards of Directors are often misused in fundraising. They serve on event committees, write grants, make cold calls, or seal envelopes. Instead of using them for these low ROI activities, give them one fundraising job and one job only: to help move major donors through the cycle outlined above. Even if board members don't have networks of wealthy friends, there is still much they can do to help raise major donor dollars. Board members can help identify major donor prospects, uncover information about potential prospects, invite prospects to a cultivation event, go on a major donor call, send thank you notes or make phone calls. The board is a key part of your organization's network; put them to their highest and best use.

5. Do Away With the Pity Ask.

To effectively raise money from individual donors, especially major donors, you have to move away from the pity *donation* and toward the *investment* opportunity. And investment opportunities are not only for the major donor. Even your smallest donor can be made to understand the broader impact of the organization's work, how important their dollar is, and what the social return on investment can be.

Individuals are able and want to do so much more. If nonprofits more effectively seized opportunities to engage and invest individuals, the sector could become more sustainable and better able to create change.

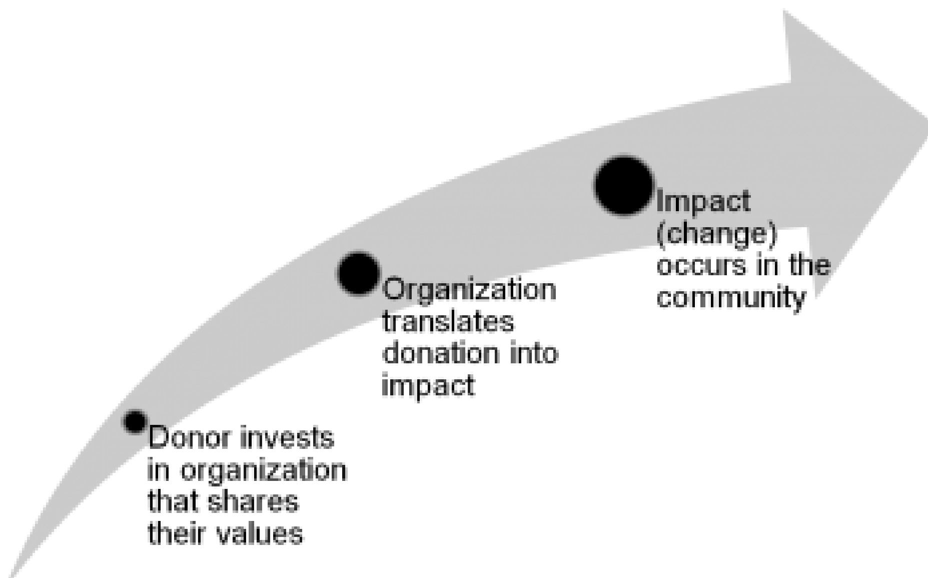
Develop a Message of Impact

Fundraising often uses the messaging of organizational need:

- "We need $100 to provide our programs."
- "We need $1,000 to meet our goals."
- "We need to build a new building."

But that's not how to raise money effectively.

To raise significant money, nonprofits need to focus on how they translate money into social impact. The message of organizational need stops at the nonprofit. The message of social impact takes the argument much further, demonstrating how a nonprofit translates funds raised into social change, through a three-step process:



1. A donor invests in a nonprofit organization that shares their values
2. That investment is translated by the nonprofit into some sort of social impact
3. Some change occurs in the community as a result

The nonprofit is merely an intermediary between a donor and social change. Therefore, the donor is NOT investing in a nonprofit organization, rather they are investing in the social change the nonprofit creates.

Helping to create social change is much more powerful to a donor than simply helping a nonprofit organization. And it garners larger, more long-term donor investment and engagement in the work of the organization.

To understand this more clearly let's take a look at how the message of organizational need (raising donations) differs from the message of social impact (securing investments):

	Donation	**Investment**
Messaging Focus	Fundraising goals	Community change
Fundraiser Approach	Apologetic	Presenting an opportunity
Donor Mentality	What's in it for me?	How can I change the world?
Organization's Operating Principle	Reactive	Strategic
Ask Item	Books for an afterschool program	The opportunity to set children on a path toward a brighter future
Why should a donor give?	Because the organization needs it	Because the nonprofit shows they can change a problem the donor cares about
What the donor gets in return	Recognition, individual benefits	Demonstrated change to a social problem they care about

In every way, from the focus of the messaging, to the fundraiser's approach to donors, to the donor mentality, to how the organization operates, an *donation* mindset is so much more limiting than an *investment* mindset.

So what does this actually look like in messaging? Let's take an example of an after-school program for at-risk children.

According to the nonprofit's theory of change, they translate dollars into positive outcomes for the children (increased student achievement, fewer high-school drop outs, fewer behavioral issues). If the organization were to fundraise around the organization's needs it might sound like this:

"Help us reach our goal of raising $100,000 for our program."

But if instead they were to fundraise around a message of social impact, it might sound like this:

"Invest in our work to give kids a better future, making them contributing members of society and our community stronger and healthier."

The first message is about strengthening an organization; the second message is about strengthening a community.

The message of impact is not just something nonprofits should use for major donor asks. It can be used to varying degrees in all campaigns, large or small, and in all channels (social media, direct mail, email, in-person). In so doing, the organization is creating a loyal following of donors who believe in the change the nonprofit is creating and view themselves as critical partners in making that change happen.

Raise Money for Building Capacity

There must be a recognition in the nonprofit sector, and among the philanthropy that funds it, that nonprofits need money to support not only their direct services, but also the infrastructure (technology, systems, evaluation, training, fundraising) of the organization. Nonprofits will only get better at creating social change if they have a strong and effective organization behind their work.

George Overholser, formerly of the Nonprofit Finance Fund, is the pioneer of this critical distinction in the nonprofit sector between money to BUY services and money to BUILD organizations. The idea is simple. There are two types of dollars in the nonprofit sector:

- Dollars that BUY nonprofit direct services (more beds for the homeless, more hours of ESL instruction), and
- Dollars that BUILD a stronger nonprofit organization (technology, systems, fundraising staff).

A nonprofit that wants to get out of the vicious fundraising cycle needs to make a commitment to building their organization and finding, and convincing, donors to fund that building effort.

Let's take fundraising infrastructure for example. Most nonprofit organizations lack sufficient infrastructure to bring enough money in the door. They don't have enough money to hire experienced fundraisers, buy efficient and effective technology to track donors, create compelling messaging and collateral, train their board in fundraising, and so on. But with dollars to invest in staff, technology, planning and expertise, the organization could transform their fundraising function into one that raises many more times the amount of money that they currently do.

So how does a nonprofit organization find money to build their organization? Here are the steps:

1. **Create a Plan.**

   Develop a road map for the future that includes a budget for the *real* costs of the *real* infrastructure and capacity you need to get there.

2. **Determine the Ask.**

   Split the overall cost for these infrastructure elements into reasonable ask amounts given the relative capacity of your donors.

3. **Create the Pitch.**

   Create a compelling capacity funding pitch that connects these infrastructure elements to an increase in your ability to create impact in the community. A more seasoned development director means that you can raise more money, more effectively, more quickly. With that additional revenue, your services can reach more people.

4. **Analyze your Donors.**

   Look for the individuals, foundations, and corporations who love what your organization does, have the ability to give at the ask levels you determined in #2, and could be made to understand the argument that money to build can allow your organization to do so much more.

5. **Explore Alternative Funding.**

   Find new ways to fund capacity building. For example, PRIs, or program-related investments (essentially loans to nonprofits) could be used to build fundraising infrastructure because once a nonprofit's capacity to raise money has increased, the loan can be paid back out of the additional revenue. Explore creative options like this with funders.

6. **Make the Ask.**

   Present your plan and pitch to the donors you have identified and educate them about the critical importance of capacity capital.

Money to build nonprofit organizations isn't just lying around. Indeed, most donors claim that they aren't interested in funding anything beyond direct services. But with a compelling argument for how money to build an organization can result in much greater impact, many more donors can become builders.

Explore New Types of Money

Many nonprofit leaders are worn out by finding money to create social impact because their view of potential money options is too narrow. Nonprofits no longer have to rely solely on fundraising to finance the impact they want to create. There are several new financial tools available, and hopefully more will continue to be developed so that eventually nonprofits will gain access to a similar breadth and depth of financial tools that for-profit entrepreneurs enjoy.

Below are some of the new financial tools available to nonprofits. As a nonprofit leader you should explore these options and determine whether any of them could be integrated into your organization's financing plan:

- ### Growth Capital

  The nonprofit equivalent to equity in the for-profit world is "philanthropic equity" or "growth capital." It is essentially money that builds the organization so that it can deliver significantly more services. It can support things like infrastructure, staffing, technology, and systems. If the solution that your nonprofit provides could significantly expand to more people, your organization could benefit from a plan for growth. And in order to finance that growth, you will need growth capital.

- ### Capacity Capital

  Also a form of equity, capacity capital enables a nonprofit to strengthen their organization in order to achieve more impact. In this case the capital pays for technology, staffing, infrastructure that allows the nonprofit to achieve more, more sustainably. The most obvious case is when a nonprofit raises money to invest in their fundraising function (donor database, qualified development staff, materials), which sets them on a road towards financial sustainability, ultimately allowing them to achieve more social impact.

- ### Loans

  Nonprofits have been shy about loans because they are so unsure of future cash flows that loans can be too risky. However, program-related investments (PRIs), a fairly underused tool that foundations possess, are essentially loans to nonprofits at low or no interest rates that can be forgiven at the end of the loan period. This ability to forgive and the lower interest rate makes PRIs a real opportunity for nonprofits. But since few foundations employ PRIs, it is up to nonprofits to encourage their foundation donors to explore this potential.

- Social Impact Bonds

  A brand new tool on the scene is social impact bonds. The idea is that government agencies can issue bonds, which are bought by private investors. The money raised would be used to finance projects with social impact goals. The investors would be repaid, or even make a profit, if the projects achieve certain outcomes agreed to in advance, for example getting kids into college, reducing the high school drop out rate or decreasing teen pregnancies. This is still a very new idea, and it remains to be seen if it will actually become a reality in America, but the precedent is there. It could even happen on the local government level. A city could raise a bond to fund the work of local nonprofits, which would be tied to specific outcomes.

These financial tools are new, and with innovation comes risk. Not all of these vehicles will work for all nonprofits. But the idea is that the nonprofit sector needs alternative financing options. These options are just a start. My hope is that there will continue to be financial innovations in the nonprofit sector. And it is up to the nonprofits themselves to educate, cajole, inspire and encourage their donors, government leaders, lenders and others to employ some of these new tools to finance their work.

Evaluate Earned Income

Earned income for nonprofits, or the sale of goods and services, is a somewhat misunderstood and unexplored financial opportunity for nonprofits. Yet there are countless examples of nonprofit organizations that sell goods or services to supplement their revenue. These include Goodwill, museum gift shops, hospitals, charter schools, theaters, and much more.

Unfortunately there are many fears in the nonprofit sector about earned income. Some of these include fear that earned income will:

- Detract from the mission of the nonprofit
- Undermine the organization by introducing “market forces”
- Be too difficult or complex to manage
- Put their nonprofit status at risk

And if mismanaged, earned income has the potential to do some or all of these things, but so does any other mismanaged activity. Earned income is not right for every nonprofit, but every nonprofit should at the very least analyze whether earned income is a potential opportunity.

Let me be clear. Earned income is not a panacea, it cannot transform a shaky financial model into a sustainable resource engine, and it cannot provide fast cash. Earned income should be explored only when your organization is relatively stable and you are planning for the long-term. Earned income ventures could take years to reach profitability.

Here are some questions to get you started in thinking about earned income. If you answer yes to a majority of these, you might consider earned income as potential new revenue source for your organization:

- Are we in a fairly stable financial situation?
- Do we have core assets that could be transformed into saleable products or services?
- Is there a potential market with a willingness and ability to pay for these products/services?
- Would the sale of these products/services be a compliment to, not a distraction from, our mission?
- Is our staff and board, for the most part, open to risk and experimentation?
- Do we have access to funders who could potentially provide some startup capital for an earned income venture?

Once a nonprofit decides to explore earned income, there is a multi-phased process to undertake which includes:

1. Analyzing assets to determine potential products/services to sell
2. Conducting market research to determine competitors and consumers
3. Pilot testing a product/service
4. Creating a business plan including marketing, staffing, financial model, risks and mitigations
5. Launching the business

One of my favorite examples of a nonprofit where earned income really works is one of our clients, English at Work. Their mission is to provide English language instruction at the worksite for employees of hotels, hospitals, and restaurants. But the really interesting part is that they charge the hotels, hospitals and restaurants for these classes. Those class fees do not cover the full costs of English at Work, but they are working toward a financial model where 50% of the organization's budget is funded by that earned income source. Theirs is an example of a very successful, innovative and mission-tied earned income stream that will provide them long-term financial sustainability. That's when earned income really works.

Calculate Net Revenue

Absolutely critical to the concept of Financing Not Fundraising is a nonprofit's ability to analyze which revenue-generating activities are most effective. You must calculate the return on investment of every revenue-generating activity your nonprofit undertakes. This can be fairly easily understood through two basic, but critical analyses:

1. Net revenue raised, and
2. Cost to raise a dollar

If these two calculations were applied to every moneymaking effort a nonprofit engages in, organizations could quickly determine which are the most effective activities and scarce resources could be more profitably allocated accordingly.

The first calculation is net revenue. NET revenue is so much more informative than GROSS revenue. Gross revenue is the total of all money brought in because of a fundraising activity (a direct mail appeal, a gala, a foundation grant, a major gifts campaign). But that figure is meaningless until you understand what it COST you to bring that money in the door.

These costs are both DIRECT (the materials required for the activity, the staff that worked directly on the activity) and INDIRECT (volunteer hours, overhead staff time). You only really know how much money you made once you subtract the costs to make it.

Thus,

Net Revenue = Gross Revenue – Expenses (Direct and Indirect)

Let me give you an example. Let's pretend that a nonprofit organization with a $500,000 annual budget throws an annual gala with a band, catering, and an auction. One staff member spends half their time getting the event together, and a board committee helps sell tables and provides oversight. At the end of the event the organization grosses $100,000. They are thrilled that they have made 20% of their annual budget in one night, right? Wrong.

That's only the gross revenue. What is the net revenue of this gala, i.e. what did it cost them to raise that money? The direct expenses for the event (the band, venue, food, decorations, invitations) cost them $50,000.

Direct Expenses = $50,000

But they also need to factor in the indirect expenses:

- Their event coordinator spent half a year preparing for this event.
- Their executive director attended meetings, made phone calls to invite people, and came to the event.
- The development director worked on the event.
- And the board committee put in many hours planning, marketing, and attending the event.

So if we calculate the hourly rate of those staff member's time (salary and benefits) and multiplied it by the hours they each worked, we'd get the cost of their time. We also need to do the same for board members. We can use the standard value of volunteer hours ($20.25) multiplied by the number of board members who worked on the event and the average number of hours they spent. If we add all of this up we get:

Event Coordinator =	$15,000
Executive Director =	$4,000
Development Director =	$5,000
Board Members =	$3,000
Total =	**$27,000**

So the total costs of the gala were:

$50,000 (direct expenses) + $27,000 (indirect expenses) = **$77,000**

And, the net revenue on this event was:

$100,000 (gross revenue) – $77,000 (direct and indirect expenses) = **$23,000**

Which brings me to the second critical calculation: cost to raise a dollar. How much did it cost the organization to raise that $23,000?

Cost to Raise $1.00 = Expenses (Direct and Indirect) / Net Revenue

$77,000 / $23,000 = **$3.35**

So it cost this organization $3.35 to raise $1.00. That's not an attractive return is it?

Although this organization actually made money, the cost of making that money is far larger than the money they made. And how does the cost of making this money compare to their other fundraising activities?

Well, let's take another example. Pretend this organization hires a major gift officer at a salary of $65,000 per year plus benefits. Her salary and benefits are the direct costs. The indirect costs could include:

- The Executive Director's and board members' time to go on donor and prospect visits
- Creation of materials
- Mailing of thank you letters

The total for these direct and indirect costs would be $100,000. Say that this major gift officer raises $500,000 per year in major gifts. Then the net revenue would be:

$500,000 (gross revenue) – $100,000 (direct and indirect expenses) = **$400,000 Net Revenue**

And the cost to raise a dollar would be:

$100,000 (direct and indirect expenses) / $400,000 (net revenue) = **$0.25**

So it takes $0.25 to raise $1.00. That's a dramatically better return on investment than the gala that cost $3.35 to raise $1.00 above, isn't it?

I encourage you to run the numbers on your own fundraising activities and then compare.

- How does your net revenue and cost to raise a dollar compare across activities?
- Which are the most effective fundraising activities?

What if you poured more effort and resources into the higher net activities? More money would contribute to your bottom-line, meaning more money to spend on the social impact you want to create.

That could be transformative.

Move From Push to Pull

If you want to embrace Financing Not Fundraising, you need to move away from "push" fundraising and marketing efforts that force your message on innocent bystanders (like acquisition direct mail appeals), and towards "pull" activities that allow interested prospects to opt in to your organization (like social media, friend-raising events, partnerships).

In times of increasing competition for supporters, nonprofits can no longer engage in ineffective, non-strategic efforts to get people in the door. Rather, nonprofits must attract people through engaging content, events and activities that encourage people to raise their hand and become part of the organization.

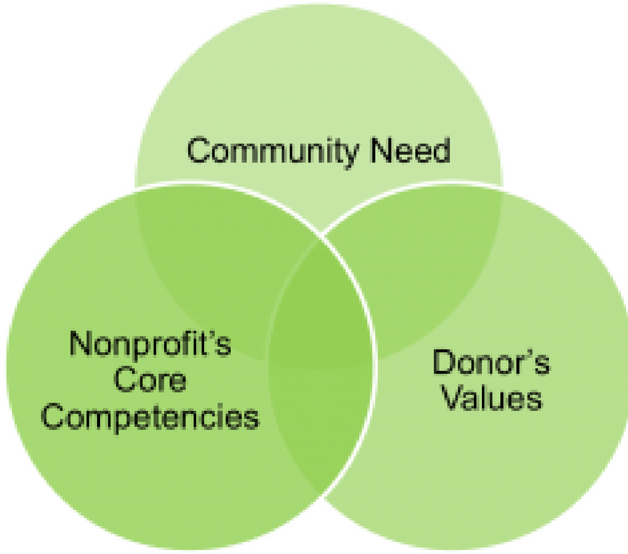
First, let's define Push versus Pull marketing activities:

- **Push** efforts are traditional marketing activities where you create marketing or fundraising "messages" and distribute them through various channels and hope that someone sees them and responds to your call to action. Some examples of Push efforts are: direct mail letters to prospective donors, a brochure-like web site where you talk about your work and hope people hit the "donate" button, ads or articles in the local newspaper.

- **Pull** efforts are when you engage and build relationships outside the organization, join communities and give people reasons to voluntarily draw your organization into their personal experiences. You're not interrupting them; you're not controlling the message or the channel. People are getting to know you, liking what they see and opting in to getting to know you and your organization better.

"Push" efforts are controlling and controlled, time and resource-intensive and yield low returns (direct mailings that get a 2% response rate are considered successful). "Pull" efforts are open and inviting and yield much better and longer-term donors because these efforts allow prospects to self-identify.

Key to the whole idea of Pull activities is that you want to find prospective donors who share your values as an organization and believe in the change you are trying to create. So many nonprofit organizations think that they need to mass market their organization. To the contrary, your message will not resonate with the general public. You need to find prospects whose values intersect with a community need that your organization is uniquely positioned (because of your core competencies) to solve, like this:



Pull marketing makes your job easier because you no longer have to look for a needle in a haystack, but rather you simply must be yourself, demonstrate your values and your work and join communities where like-minded people hang out. Introduce yourself and start building relationships. Social media is a fabulous and inexpensive tool for doing just this.

So how does Pull vs. Push marketing look in a nonprofit's annual revenue plan:

- Instead of pushing your fundraising appeals out to mass audiences through direct mail campaigns sent to people who have never demonstrated an interest in your nonprofit, start a blog that engages people who share an interest in your work to read, comment and become part of a community engaged in social change.

- Instead of sending out invitations for a big gala to a bunch of people who are more interested in the food and entertainment than your work, start holding smaller, more intimate, mission-focused occasions for current supporters to bring friends to learn about the organization, volunteer and get involved.

- Instead of just posting static articles about your nonprofit on your Facebook page, start asking questions and initiating conversations with your fans. Start getting to know them. Encourage them to drive content, suggest activities and lead efforts.

- Instead of putting up walls and engaging and collaborating only with a small group of advisors and partners, open your organization up to vast networks, partners, supporters and others who share your values and your work. Constantly seek out opportunities to find new friends and organizations in high and low places.

- Instead of focusing only on what supporters can do for you, get to know them and figure out what you can offer them (opportunities to change the word, meet like-minded friends, engage in a broader community).

- Instead of asking supporters simply to give money and volunteer, encourage and empower them to lead their networks of friends, family, colleagues, neighbors to get engaged with your organization as well. Make it easy and attractive for them to do that by asking them what they need, giving it to them, and then getting out of their way.

Pull activities require a complete shift in mindset. The messages and activities are not up to you anymore. You can't control the outcome. Rather be yourself, build relationships, join communities and engage people in compelling, inspiring and interesting ways. Pretty soon you'll have more friends and supporters than you ever knew.

Stop Lying to Donors

If nonprofits are going to truly break free from the vicious fundraising cycle, they must find the courage to tell funders how it really is. And since board members are a nonprofit's closest supporters and (I hope) donors, you need to stop telling them these lies as well.

Here are the top 5 lies you have to stop telling donors:

1. ***X% of your donation goes to the program***
   The distinction between "program expenses" and "overhead" is, at best, meaningless and, at worst, destructive. You cannot have a program without staff, technology, space, systems, evaluation, research and development. It is magical thinking to say that you can separate money spent on programs from money spent on the support of programs. Donors need to understand, and you need to explain to them, that "overhead" is not a dirty word. A nonprofit exists to deliver programs. And *everything* the organization does helps to make those programs better, stronger, bigger, more effective.

2. ***We can do the same program with less money***
   No you can't. You know you can't. You are already scraping by. Don't accept a check from a donor who wants all the bells and whistles you explained in your pitch, but at a lower cost. Explain the true costs, including administrative costs, of getting results. Politely, but firmly, explain to them that an inferior investment will yield an inferior result. If they simply can't afford the price tag, then encourage them to find fellow funders to co-invest with.

3. ***We can start a new program that doesn't fit with our mission or strategy***
   Yes that big, fat check a donor is holding in front of you looks very appealing. But if it takes your organization in a different direction than your strategy or your core competencies require, accepting it is a huge mistake. Nonprofits must constantly ensure that money and mission are aligned. Otherwise the organization will be scattered in countless directions with an exhausted staff and confused donor base. Don't let a donor take you down that road.

4. ***We can grow without additional staff or other resources***
   Nonprofit staff truly excel at working endless hours with very few resources. They have perfected the concept of doing more and more with less and less. But someday that road must end. Nonprofit leaders have to be honest with

donors when their staff and resources are at capacity. Because eventually program results will suffer and the donor will receive little in return for their investment.

5. *100% of our board is committed to our organization*
   If that's true, then you are a true minority in the nonprofit sector. Every nonprofit board I know has some dead wood. Members who ignore fundraising duties, don't contribute to meetings, miss meetings, take the organization on tangents are always present. It's a fact that funders want to see every board member contributing. But instead of perpetuating the myth that 100% is an achievable reality, be honest with funders. Tell them that you continually analyze each individual board member's contributions (financial, intellectual, time) and have a clear plan for addressing deficiency, including: coaching, peer pressure, training, asking for resignations. Getting to 100% is probably never realistic; it is far better to demonstrate that you are tirelessly working toward 90%.

Stop the madness. We need to stop telling funders what they want to hear and then cursing them behind their backs when they set unrealistic expectations. Funders must be made to understand the harsh realities of the nonprofit sector if they are ever to be expected to help bring change.

Getting Started

Nonprofits can no longer work towards social change on one side and throw a gala event (or send out a direct mail appeal or write a grant) on the other side and think that this disjointed, haphazard way of funding their work is sustainable. To truly achieve social change, nonprofits need to take a huge step back and figure out how to employ all of the financial tools available to them in an effective, integrated way. This is how you finance, rather than fundraise for, social change.

Nonprofits don't have to wear out their fundraisers, their donors, their staff and their message. By working towards financing their efforts as opposed to fundraising for them, they can get a lot closer to social change.

Here are some ways you can start to move your nonprofit from fundraising to financing:

- If you want to take what you learned in this e-book farther, download the two other e-books in the Financing Not Fundraising series. Financing Not Fundraising, vol. 2 and Financing Not Fundraising, vol. 3. These e-books show you how to start moving your nonprofit, your staff, your board, and your donors toward this new approach.

- If you want to create a financing plan for your nonprofit, download our Build a Nonprofit Financing Plan Guide.

- If you want to read case studies of other nonprofits that moved from fundraising to financing and dramatically increased their financial sustainability, go to the Clients page of our website.

- If you'd like to explore whether our Financial Model Assessment or Financing Plan consulting services are right for your nonprofit, email info@socialvelocity.net to schedule a free consultation with me.

- Check out the other Social Velocity e-books, guides and tools at the Tools page of our website.

I hope you found this e-book helpful. As always, I welcome your feedback or questions about any Social Velocity tool. Please email info@socialvelocity.net with questions, comments or feedback.

Good luck!

This e-book was designed to help you think about transforming your nonprofit. If you want a customized approach, or need help engaging more board, staff and donors in the change process, call (512) 694-7235 or email info@socialvelocity.net to schedule a free consultation with Nell Edgington.

Social Velocity is a management consulting firm that helps nonprofits become more strategic, sustainable, and above all, more effective at creating social change.

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