

# The Race Is On For Transformational Donors

Melissa Bank Stepno, Practice Manager, Target Analytics

## Executive Summary

Principal, transformational, and lead gifts are critically important—without them, you cannot expect to secure and sustain your mission. For many years, nonprofits have tracked with the 80/20 rule. That is, an organization could expect to receive 80 percent of its funding from 20 percent of its donors. In recent years, however, many organizations have seen this ratio shift to 95/5 or even 97/3. This dramatic change is due to a combination of shifting wealth, an uncertain economy, and the changing priorities of funders. Today, many organizations find that their best donors have suffered losses in liquidity during the recent recession and/or are feeling ‘tapped out’ by the nonprofits they have supported heavily in the past. Maintaining your competitive edge by cultivating new principal gift donors will prove transformational for your organization. It’s a commitment that has to come from the very top of the organization and be reflected in all of your systems and processes.

## On Your Mark: Set the stage

Principal giving strategies encourage those with extraordinary resources to make an extraordinary impact. Typically, a principal gift is one that far exceeds an organization’s entry point for major giving and is designed to distinguish the extraordinary donors from the significant donors. It’s a distinction that varies from organization to organization. Principal giving can start at \$100,000, \$1 million, \$5 million, or even \$10 million. There’s no clear rule; if your organization considers \$1,000 to be a major gift, your organization may define principal gifts starting at the \$100,000 level, whereas an organization whose major giving level starts at \$100,000 may consider \$5 million to be a principal gift.

But, it’s not the dollar value that matters. It’s the commitment you, as an organization, make to differentiating your approach to working with principal gift prospects. While it’s well accepted that major giving prospects require higher-touch cultivation and relationship building than typical annual fund and lower-dollar donors, with principal gift prospects relationship building is paramount.

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For many years, nonprofits have tracked with the 80/20 rule. In recent years, many organizations have seen this ratio shift to 95/5 or even 97/3.

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As organizations continue to up the ante with more and more aggressive campaign goals, they have increasingly high expectations to meet. Consider that when the 80/20 rule held true, the one billion dollar campaign was virtually non-existent. Now, campaigns this size and larger are becoming commonplace at premier institutions. And as organizations become more aggressive in their fundraising goals, they will find fewer prospects able and willing to support the apex of their fundraising campaigns. For example, one large research university expects 11 donors to fund 80 percent of the campaign they are about to launch. To be successful, the expectation is that this will all have to be in the form of principal gifts that require organization-wide focus.

Yet, those organizations taking an institution-focused, budget-driven approach to reaching these campaign goals will likely not be successful. Not only is the prospect pool limited but those contributing large sums to philanthropy is even more defined. And, these donors are often looking for a collaborative, donor-centered investment. According to Claire Costello, national philanthropic practice executive at U.S. Trust: *“Wealthy donors are intentional about and engaged in their giving – when they find that meaningful intersection between their ideas and ideals – they give more, are more impactful and more personally fulfilled.”*

This point is reinforced by a 2014 U.S. Trust Study of High Net Worth Philanthropy, written by The Center on Philanthropy at Indiana University.<sup>1</sup> It surveyed high-net-worth individuals who either have an annual household income of \$200,000 or more or have a net worth (excluding primary residence) of at least \$1 million. Researchers found that among these groups, the biggest motivators for charitable giving was being *“moved at how [their] gift can make a difference”* and *“personal satisfaction.”*

They also found that although almost every respondent made charitable contributions, most gifts were relatively low. In 2009, only 10.5 percent of the study’s respondents gave a total of \$100,000 or more to nonprofits – and that was total giving, not to one specific organization. Couple this with the fact that \$100,000 is the lowest level generally seen for principal giving to an organization and you see how few principal gift prospects truly exist.

According to a 2012 study by The Spectrem Group, there are 8.6 million households in the U.S. with a net worth (excluding primary residence) of at least \$1 million.<sup>2</sup> The number of households with at least \$5 million in assets reduces this to just 1 million, and, at the \$25 million level, the U.S. has 107,000 households. This may seem like a lot of households but compared with charitable needs and translated to charitable dollars, you’ll see that you’re looking at a very small group of individuals who are capable of making an extraordinary principal gift.

So, what can be learned from the research? First, principal giving cannot simply be about finding wealthy people in an organization’s database — it takes a more sophisticated look at donors and focuses on finding the right combination of factors including the:



## About the Author

*Melissa Bank Stepno* joined Blackbaud in 2008, following the acquisition of Kintera. For more than a decade, she has helped hundreds of nonprofits with designing strategy and implementation plans for predictive modeling and database screening projects. Previously, Melissa served as a Senior Development Researcher at Boston University where she was responsible for managing wealth screenings of more than 100,000 records. Melissa sits on the boards of Brandeis University’s Alumni Association, the New England Development Researchers Association, and the Association of Fundraising Professionals Northern New England Chapter. She received her BA from Brandeis University and masters’ degrees in Arts Administration and Higher Education Administration from Boston University.

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- Right donor
- Right purpose
- Right amount
- Right solicitor
- Right time

To identify the right prospects for your organization, you have to understand your organization's needs, your Case for Support.

A 2011 study by Dini Partners<sup>3</sup> of donors who contributed \$100,000 to \$1 million found that the single most important factor influencing giving is alignment with an organization's mission. And, when choosing new programs to support, more than 50 percent of donors surveyed cited a personal relationship to an organization or cause as the most important factor in choosing to support it.

Wise philanthropists reinforce this concept time and time again by affirming, "It's about fundraising, friend-raising, and matchmaking." It's about: "giving a person an opportunity to support a good cause." It's about: "matching the right person to the right projects." In formal studies and casual conversation philanthropists are clear: "It's about building relationships, not about the money."

## Get Set: Identify the right prospects

To effectively find this right combination in a donor, start at the beginning with proper prospect identification. This occurs long before cultivation and relationship building come into play.

### Identifying Need

To identify the right prospects for your organization, you have to understand your organization's needs, your Case for Support. This is a crucial step when you embark on the task of identifying new prospects, especially for principal giving. Typically, nonprofits tend to focus only on past giving and perceived wealth, but to be successful, it's worth employing a more sophisticated and educated approach. Ask yourself the following questions:

- What are your organization's top funding initiatives?
- Why are they the most important?
- When will funding for these initiatives be needed?
- How much funding is needed for each one?
- What additional initiatives are coming down the road?
- How do these initiatives help your organization fulfill its mission?
- Why are these initiatives compelling and unique to your organization?
- Is your "organizational house" in order?

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If you can't answer these questions, step back from identifying prospects and do your homework first. If you're confident in your answers, it's time to begin identifying the appropriate principal gift prospects for your organization.

### **Identifying Capacity and Inclination**

Who in your database has both the wealth (capacity) to fund your initiatives and the inclination (likelihood, desire, affinity) to do so? This is called the “sweet spot,” because it requires your potential donors to show both capacity and inclination. The reality is, your biggest champions may not have the wealth to fund your initiatives at the principal gift level, and the wealthiest potential donors may have no interest in your initiatives.

A good way to find the sweet spot of capacity and inclination is to use predictive modeling—the process by which a model, or profile, of those who have already done what you're measuring is created, enabling you to find others who look like the model.

Today, by pooling principal-level donors together and examining millions of distinct datasets and giving patterns, it's possible to develop a “profile model” of the ideal principal gift prospect. The profile includes information specific to both a prospect's relationship to your organization and more generally to the prospect's capacity, wealth, and philanthropic interest so you know you're hitting that sweet spot.

### **So what makes a principal gift prospect?**

One thing you should look for in a principal gift prospect is general philanthropic propensity. Our research shows that donors who show loyalty to an organization through consistent giving provide the base of prospects with potential for increased commitment. This is supported by traditional fundraising theory, which states that those who have given to an organization in the past are more likely to give to the organization in the future. Or, in industry lingo, retention is more successful than acquisition. For example, one client shared that their year-over-year retention rate is about 80 percent while their new donor acquisition rate is one percent. Similarly, in benchmarking ten large nonprofits, we found a correlation between raising more dollars through the organization's major giving program and the average length of time a donor was affiliated with the organization prior to making their first major gift.

However, there is much more to the picture than simply being philanthropic to your organization. Principal gift prospects typically have high incomes, are well educated and enjoy a comfortable lifestyle, belonging to affluent demographic groups and living in expensive homes situated in communities with a high quality of life. In addition to their income, their community, and the value of their primary residence, their other assets are higher than the norm as well.

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## Capacity

Remember, just because donors have the inclination to support your mission, they cannot be principal gift prospects if they don't have the capacity to do so. And, while our research indicates that having a certain threshold of high income is one factor in being indicative of principal giving, there are many high-income earners that are overextended or not interested in making principal gifts. So, a deeper dive into a donor's actual circumstances is necessary to fully vet potential capacity. Whether or not you're using a predictive model, you should use a combination of an electronic wealth screening and a research review. Screenings will help lead you in the right direction, but a screening's limited view of publically-searchable databases typically only—cleanly and easily—uncovers 20 to 40 percent of a person's wealth. This is why research is needed: it allows you to get “into the weeds” and dive deeper, to better understand the data through more comprehensive analysis and investigation.

Having said that, true capacity may not be determined until a personal relationship with the prospect is cultivated. Through personal relationships, you'll not only be able to uncover additional wealth (Is that a real Monet hanging in the hallway?), but you'll also be able to better understand potential liabilities (So, all five children are currently attending a pricey private school?). Significant wealth will not enable a principal gift if encumbrances are equally high. And, behind-the-desk research alone will not unearth all pertinent information.

## Inclination

Inclination to give can be a bit more difficult to determine. Typically, you can start to make an assessment of an individual's inclination by answering these questions:

- What is the prospect's relationship with your organization? This includes past giving, advocacy, event participation, constituency, and anything else that connects them to you.
- Where else has the prospect given, and at what level?
- Does the prospect sit on any philanthropic or foundation boards?
- What is the prospect's motivation for giving?
- Are there personal circumstances that may mitigate or strengthen their perceived interest in your organization?
- Who else might they know at your organization (staff, board, volunteers) that could help answer these questions, and importantly, help to build a relationship between your organization and this prospect?

The cultivation process is designed, in part, to help explore someone's specific inclination in more detail. But, if you cannot find positive answers to some of these questions upfront, and if you're only looking at someone because of their perceived capacity, it might be time to move on. Always remember, to find the right prospect, you have to look for the sweet spot.

Principal giving is a mindset, a paradigm shift, a different way of approaching development work.

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## Go: Be operational ready

Are you ready to start identifying principal gift prospects? Not so fast! Principal giving is not just about adding a new level to your development pyramid or understanding your organization's needs or finding the right prospects. In many ways, principal giving is a mindset, a paradigm shift, a different way of approaching development work. This is a marathon, not a sprint.

To assess your organizational readiness, you must already have a major gifts program and a dedicated major gifts team in place. Principal giving is not the place to start your high-touch cultivation-based fundraising program. It's an elite add-on—something to consider when, and only when, you already have a good system in place and a culture of major giving firmly established.

### Buy-in from the top is critical

- First, your Chief Development Officer has to be onboard with shifting some of your team's efforts to a higher degree of fundraising. Immediate ROI may not be evident, but secured principal gifts can help provide transformational funding for your organization. It's similar to investing in a planned giving program: The rewards may take a while to realize, but once they are, they can alter the future of an organization.
- Second, your Chief Development Officer has to advocate for a principal giving program to your CEO, President, and Board. This is necessary because your principal gift prospects will frequently (and rightly so) expect them to be involved in the process of cultivation and solicitation. In many cases, while it may still fall to the development professional to make the actual 'ask,' principal giving prospects will expect your organization's leaders to be at the table.
- Finally, all of your organization's director-level stakeholders should also be involved (at colleges, this is typically academic deans; at hospitals, chief medical staff; at service agencies, program directors). These individuals know better than anyone how to best identify and articulate your Case for Support. They are also often better able to articulate passion for your mission in a way that comes across as more genuine than the development professional can.

### Ready your development team and systems

Dedicated frontline gift officers are a must to ensure you have the appropriate resources needed to build close relationships with principal gift prospects. If major giving is high-touch, principal giving is ultra-high touch. Typically, principal gift prospects require more personal contacts with your organization. Someone needs to both develop and orchestrate this relationship. Additionally, you need:

- A prospect management system with a staff member responsible for oversight: Given the intensity of principal giving, a prospect management system will assure that prospects are being identified and moved to qualification, cultivation, and solicitation stages in a timely manner. Having a person who is not only responsible for the relationship with the prospect but also responsible for the process itself will help assure productivity across your team. Keeping a critical eye on solicitation plans, activity/inactivity, and Gift Officer case loads are all important aspects. In fact, in many cases, organizations will find that Gift Officers working with principal giving typically see their portfolio size reduced specifically so attention can be better focused on a few key prospects.

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- A researcher or researchers to provide the in-depth information, synthesis, and analysis needed for understanding your principal gift prospects: Ideally, the researcher should not just be tasked with identification, they should also partner with your Gift Officers, becoming a part of the strategy process needed to help build a relationship with a prospect.
- A strong constituent relationship management (CRM) system that allows you to track all activity related to your prospects in one centralized place: And, this means everything – every internal strategy decision, personalized touch-point, mailing, gift receipt, event attended – that can help your organization get a 360-degree view of the prospect and your organization. It may seem like overkill or administrative hassle, but keep in mind that you’re building a relationship between an extraordinary prospect and an organization; your team is a conduit for the relationship itself. Staff members come and go; the hope is that your prospect’s relationship with your organization will endure. Therefore, detailed record keeping, and the building of your organization’s institutional memory, will be crucial in keeping your processes organized and the relationship forward-moving.

### Everything ready? Move to the starting point!

## Conclusion

To realize a successful principal giving program, an organization has to be prepared to go the distance. Like running a successful marathon, principal giving is epitomized by the planning and process that is put in place, only here the goal is not to cross the finish line but to help guide extraordinary prospects toward providing extraordinary gifts. As quoted from one such donor, the gift itself is *“about building relationships, not about the money.”* And, identifying prospective donors with the right sweet spot must be at the beginning of creating a true partnership. It is through these partnerships that you have the potential to transform your organization and achieve your mission.

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<sup>1</sup> 2014 Study of High Net Worth Philanthropy. Bank of America. U.S. Trust. November 2014. [http://newsroom.bankofamerica.com/sites/bankofamerica.newshq.businesswire.com/files/press\\_kit/additional/2014\\_US\\_Trust\\_Study\\_of\\_High\\_Net\\_Worth\\_Philanthropy.pdf](http://newsroom.bankofamerica.com/sites/bankofamerica.newshq.businesswire.com/files/press_kit/additional/2014_US_Trust_Study_of_High_Net_Worth_Philanthropy.pdf)

<sup>2</sup> Affluent Market Insights 2012 report, Spectrem Group, March 21, 2012, <http://www.spectrem.com/content/spectrem-group-release-3-21-12>

<sup>3</sup> Giving in 2011, Dini Partners: [http://www.dinipartners.com/UserFiles/File/2011\\_Non-Profit\\_Giving\\_Survey.pdf](http://www.dinipartners.com/UserFiles/File/2011_Non-Profit_Giving_Survey.pdf)



**Strength to Strength Series**

# **Fundraising 201**

September 6, 2024





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# Objectives

- Understand how to build a fundraising strategy based on data and knowledge of your donors
- Gain insights into donor stewardship and the moves management process
- Continue to explore the role of board members in donor stewardship
- Meet colleagues!

# Group Norms

Take space, make space

Be present

Be curious – no silly questions

Respect confidentiality

# **Fundraising 101**

## **Recap**

# Fundraising Types

## **Annual Fund**

Consistent effort to raise general funds.

## **Planned Giving**

Promised funding to an organization via a will or estate.

## **Capital Campaigns**

One-time fundraising effort to build or buy a more permanent item.

## **Major Gifts**

Large gifts from individuals or family foundations.

## **Special Campaigns**

Fundraising for a specific program or initiative.

# Donor Stewardship

## Relational Process

- Connects donors to the organization
- Donor segmentation and targeted messaging

## Pipeline Movement

- Engagement
- Cultivation
- Solicitation
- Commitment
- Stewardship

# Shared Leadership

<b>Staff Role</b>	<b>Board Role</b>
Set expectations	Make a personally significant gift
Develop shared language, talking points	Volunteer / organize events
Share data and impact	Make introductions
Conduct formal asks post-introductions	Engage in direct asks
Steward donors	Support stewardship & engagement

# **Building a Strategy**



# What is a Development Strategy?

- Tools, messaging, infrastructure, and collateral needed to effectively meet fundraising goals
- Tailored to your organization, rooted and data, and tied to your team's capacity

# Required for Strategy Development

- Clear vision, mission
- Annual budget and fundraising goals
- Staff time

# Plan Components

- Budget goals and narrative
- Revenue sources
- Gift size projections
- Key messaging
- Donor segmentation
- Moves management strategy
- Prospect List

# Budget Goals & Narrative

## Data Needs

- Annual budget
- Projections for 1-3 years
- Historical fundraising patterns

## Questions

- What is our fundraising goal for the next three years?
- Why are we fundraising at that level?
- What are the main drivers of the growth we want to see?

# Revenue Sources

## Data Needs

- Relationships
- Historical patterns
- Lapsed donors
- Major gifts
- Retention rates

## Questions

- Based on our goals, relationships, and historical patterns, what will our sources of revenue be?
- How will we divide our budget goals across these areas?

# Gift Size Projections

## Data Needs

- Annual budget
- Historical fundraising patterns
- Donor size segmentation

## Questions

- What is a possible pathway, according to gift size, to meet the goals each year?
- How many gifts will we need within each range? What makes the most sense based on our giving patterns?

# Gift Table

**Budget Goal: \$300,000**

<b>Gift Size</b>	<b># of Gifts needed</b>	<b>Anticipated Success Rate</b>	<b>Total # of Prospects</b>	<b># of Dropdown (30%)</b>	<b># of New Prospects</b>	<b>Subtotal</b>	<b>Cumulative Total</b>
<b>\$150,000</b>	1	33%	3	0	3	\$150,000	\$150,000
<b>\$50,000</b>	1	33%	3	1	2	\$50,000	\$200,000
<b>\$25,000</b>	1	50%	2	1	1	\$25,000	\$225,000
<b>\$10,000</b>	3	50%	6	0	5	\$30,000	\$255,000
<b>\$5,000</b>	9	100%	9	2	7	\$45,000	\$300,000

# Donor Segments

Recency, frequency, type, amount, reason, interest. And...

## **Casual Giver**

Sporadic to random causes

## **Neighborhood Supporter**

Local causes, tend to be smaller organizations

## **Issue-Driven**

Believe strongly in the issue the organization focuses on

## **Pragmatists**

Needs to see impact

## **Personal Ties**

Know someone at the organization or who receives benefits

## **Faith-Based**

Faith community they belong to and engage with



# Key Messaging

## Data Needs

- Reasons people give to your organization
- Mapping of where people find causes

## Questions

- How do we tell our story?  
What is compelling about our vision and mission?
- What are the targeted messages that would resonate with specific donor segments?
- Where might people see our messaging?

# Small Group Exercise

Get into groups of three. Avoid partnering with folks from your organization.

1. Introduce yourself.
2. Each person has 3-4 minutes to:
  - Share your organizations core message.
  - Name one segment you want to target in the future and workshop how to message to them with your colleagues.



# Break

# Implementation

# Core Elements

- Outline major activities
- Determine staffing, roles, and responsibilities
- Develop materials and collateral
- Timeline / calendar
- Data tracking and review

# **Moves Management**

# Moves Management

## IDENTIFY

Find and qualify potential donors.

## STEWARD

Engage and inform.

## RECOGNIZE

Thank donor.



## ENGAGE

Build relationships.

## ASK

Ask for support.

## COMMIT

Donor commits and makes gifts.

# **Data, data, data.**

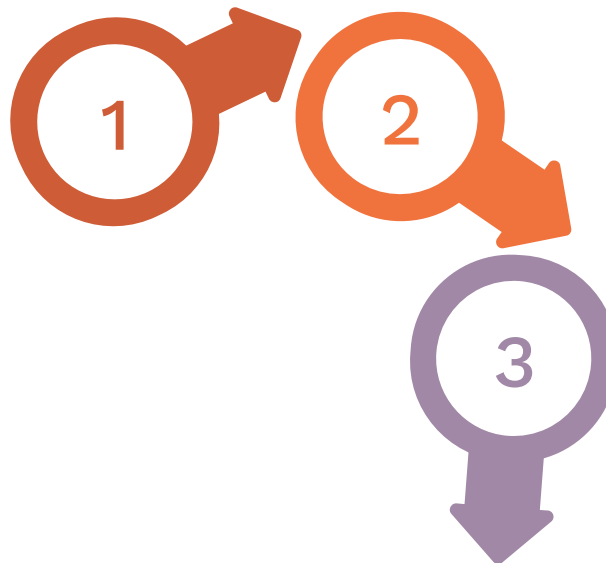
- Donor habits
- Relationship management
- Solicitors
- Actions
- Opportunities
- Status



# Moves Management

## IDENTIFY

Find and qualify potential donors.



## ENGAGE

Build relationships.

## ASK

Ask for support.

# Art of the Ask

If you don't ask, you don't get.

- Ask about interest, community needs
- Explain the need the organization is addressing, why its impactful and important
- Ask for a specific amount of money or involvement
- Be quiet
- Take action
- Follow-up

Be fast, tactical, direct, specific, and true to the organization's needs.

# Handling a No

- Be gracious
- Ask for a smaller amount
- Offer other ways to be engaged
- Find out more

# Moves Management

## IDENTIFY

Find and qualify potential donors.

## STEWARD

Engage and inform.

## RECOGNIZE

Thank donor.



## ENGAGE

Build relationships.

## ASK

Ask for support.

## COMMIT

Donor commits and makes gifts.

# Small Group Conversation

Get into groups of 3-4.

1. Introduce yourself.
2. Where in the moves management process do you and your organization excel?
3. Where in the moves management process might you need to better your practice?
4. What steps might you take to better your practice?

# Best Practices

- Data policies, practices and procedures
- Understand the cycle
- Review progress regularly



# Q&A

**Thank you!**





# Shared Leadership



**Board Leads**

**Shared Leadership**

**CEO Leads**



**Source: BoardSource**