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# LAPA News & Views

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"LAPA News & Views," is a newsletter from LAPA/Laurence A. Pagnoni & Associates, Inc., providing indispensable tips on nonprofit fundraising.

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**IN THIS ISSUE: Nonprofit Stability in an Unstable Economy**



## A NOTE FROM LAURENCE
## WHEN THE ECONOMY IS IN THE DOLDRUMS, FUNDRAISING FUNDAMENTALS APPLY MORE THAN EVER

By Laurence A. Pagnoni

Predictions anyone? Along with the crunch in mortgage-backed securities, tight credit, a wavering stock market, and sluggish retail sales, has come a host of prognostications about the effect of the economic downturn on the nonprofit sector.

"The Slumping Stock Market Cuts Into Giving," cautions the *Chronicle of Philanthropy* (April 8, 2008). Citing the decline in contributions for the first quarter of 2008 by two large donor-advised funds—Fidelity Charitable Gift Fund and the Schwab Fund for Charitable Giving—and noting how closely these figures track the slumping Dow Jones and Standard & Poor's averages, the *Chronicle* sounds the alarm: "The stock market's slide," it concludes, "has begun to affect a fast-growing type of giving."

In its next issue (April 17, 2008), the *Chronicle* finds itself troubled by the results of two new surveys: *1) Charitable donations increased at a lesser rate in 2007 than in previous years, and 2) Returns of direct-mail appeals are failing to keep up with inflation.*

However, Christopher D. Watson, president of Changing Our World, Inc., observes in a recent memo (*Economic Conditions and Philanthropy, March-April 2008*) that "historically, philanthropy has always remained strong" despite economic slowdowns. Watson marshals an impressive array of figures to calm the nerves. He claims the numbers show that "because the economy is so large and philanthropy is so small in relative terms," giving patterns rarely change from year to year by more than one tenth of one percent.

The *Boston Globe*, meanwhile, stakes out a middle position. "In tough economic times," says the *Globe* (March 26, 2008), "small social service agencies like food pantries and homeless shelters are most vulnerable, not the large educational and cultural institutions that typically have fat endowments."

The *New York Times,* in turn, bemoans the vulnerability of the large cultural and research institutions. "Charities that benefit from the largesse of Wall Street, law firms and corporations in New York have begun defensive planning," advises a lead feature in the business section (April 12, 2008). "Many fortunes have been wiped out at Bear Stearns, and the rest of the financial world is bracing for more bad news and layoffs, a harbinger of tougher times for fundraising."

The economic outlook is no doubt troublesome and hard to get a handle on. We at LAPA evaluate the situation on the basis of 13 years of day-to-day experience working with executive directors, board members, and donors. On the basis of that experience, we know that there are things that change in the nonprofit sector as a result of cyclical changes in the society at large and things that do not change. Donors intent on achieving tax-efficiency will still look to planned gifts, for example, both in times of economic up- and downturn. Similarly, the giving patterns of individuals of high net worth are usually not affected. These individuals give not only to be charitable, but also to receive something of value in return—i.e., tax efficiency. They still need tax efficiency whether the market is up or down.

Foundation giving may or may not be affected by the economic cycle depending on how the grantmakers' endowment is managed. When money is tight, the effect is often greater on smaller foundations than on large grantmakers. In a slow economy, the securities in which an endowment is invested generate less interest. At such a time, having fewer funds to distribute, a small foundation will tend not to accept proposals from organizations that are new to it, but to continue funding those agencies it already supports. The converse is not necessarily true, however. The same foundation may not broaden its generosity during economic booms if its endowment is poorly managed. The *Chronicle of Philanthropy* (April 17, 2008) recently surveyed 131 major foundations with conservatively-managed endowments. Ninety-one grant-makers could foresee their giving patterns for 2008. Of these, eighty-six (95%) expected to give at the same rate as in 2007 or to increase their philanthropy. Only five funders anticipated reducing their outlay.

Other than finding less of a welcome at small foundations, small- and mid-size nonprofits are generally not affected by the economic cycle. These nonprofits exist more or less outside of the economic cycle. They are dependent on government contracts and modest contributions from a limited number of devoted donors and a handful of foundations. It would take a cataclysm rather than a recession to interrupt these giving patterns.

In fact, a small- and mid-size nonprofit may have more cause for concern from a tsunami occurring halfway around the world than from a tumble taken by the Dow Jones. It often happens that a cataclysmic event so monopolizes the media (and the imagination) that foundations large and small divert their giving for a while entirely to relieve the suffering of the distant victims. Hurricane Katrina in 2005 and the Asian tsunami of 2004 are recent examples. The flow of attention in our society may have a greater impact on nonprofit fundraising than the flow of goods and services. *Money follows attention; individuals and organizations give money when a need captures their attention and sparks their interest.*

The money/attention/interest dynamic is basic to fundraising, and this is something else that remains constant despite the state of the economy. Donors are surprisingly loyal to their favorite charities when those charities stay in front of them. The nonprofit that regularly provides donors with updates; that establishes a personal connection with donors at intimate, heartfelt events; and that maintains this connection through, for example, the use of e-mail, will grab donors' attention the same way that headline events grab public attention.

The fact is that fundraising fundamentals do not change with the rise and fall of the economy, but apply irrespective of the prevailing phase of the business cycle. This point tends to be overlooked during booms and recessions alike. That is why I am keeping a sharp lookout on my mailbox. Within a few weeks, I expect to see a leading journal of the nonprofit sector run yet another article asking, "When Money is Tight, Should We Cut Fundraising Because We Can't Afford It?" The underlying assumption of these perennial "think pieces" is that the nonprofit's executive office can handle the fundraising function at a tough time. (It is never stated that clearly, but is all the more deeply-rooted for being implied!)

The sad irony is that fundraising fundamentals—and the specialized knowledge to put them into effect—are more pertinent when the market is in the doldrums. *Invariably, those organizations that effectively ask for more money, stay in touch with donors, and produce real change for those they serve (as documented by program outcomes) attract more money.*

The fundraising function of a nonprofit allows your entrepreneurial ideas to come to fruition. Without money, those ideas are just ramblings. So cutting back that function at a time when you need more stability is just not smart.

On the contrary, a better business decision would be to respond to lagging economic indicators by establishing more cash reserves. Why? Cash reserves, like a home or building, are collateral that can be borrowed against, and with interest rates so low this is a good time for nonprofits to take on "good debt" (mortgages), should a new brick-and-mortar project be required. Also, cash reserves can be used to make-up unexpected shortfalls, as long as a plan is in place for replenishing the reserves.

For more information on how a cash reserve and capacity campaign may benefit your organization, please see http://www.lp-associates.com/RESERVE_FUND_CAPACITY_CAMPAIGNS.pdf.

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**Q. I am currently the executive director of a mid-size social service organization. My staff and I have worked very hard to get to the point where we can begin cultivating current donors of high net worth to give even more. Now my board tells me that I should hold off due to the economy and the pressure people feel during tax time. I'm not sure if they are right. What do you advise?**
**--P. Jefferson, Queens, NY**

A. Your instincts are right. There is no reason why you should hold off on launching a major gift campaign. History has proven that philanthropy is generally not shaken by times of recession. Usually those who have the most money are also those least affected and, therefore, a recession might actually be used to your advantage. While it may not be fair, there is a "trickle up" theory that shows itself when the U.S. economy takes a hit. The poor are affected first, followed by the working class, followed by the middle class. While nonprofits may not experience a downturn, if you are a social service agency, your clients are likely to be the first to feel the effects.
This may be a good time to remind your wealthiest donors that while they are doing okay, there are people out there who are losing their jobs, becoming homeless, and finding themselves unable to pay for housing and medical care. Demand in the social service and health sectors, in particular, usually grows during times of economic hardship. Another reason that this is the worst time to decide to cancel a major donor campaign is that, while an organization may still have stable revenue, it may not be enough to serve the number of new clients who will walk through its doors.

Further, tax time is a ripe time of year for a major donor campaign. There is a simple way to convey this to your donors.Suggest to them that they move their tax refund, including the $300-$1200 or more bonus that they may receive from the government, into transformative projects through a gift to your organization. You might ask donors to make a pledge based on the amount of the refund or bonus mentioned in the letter they receive from the IRS.

If you yourself receive a refund or bonus, even a small one, you should consider contributing it to your organization. Your donors will be impressed by your dedication, and most likely will want to rise to the occasion.

Should you find that you require assistance with your campaign, LAPA will not only provide you with our individual donor services, but we will also come in and address your board. I am sure that your opinion is highly valued, and a team of experienced fundraising consultants who agree with you might bolster your argument. If not, then please give us a call and let us know how things turned out. Good luck!

If you'd like to know more about LAPA's individual major donor services, you can call or send an e-mail to Blanche Norman, director of grants services, 212.868-4800, ext. 3, or bnorman@lp-associates.com**.**

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**Make Planned Giving Work for your Organization**

Most nonprofits see less than one percent of their donors responding to a planned giving marketing campaign. Yet, research shows that 30-40 percent of donors are willing to make a planned gift to at least one charity at one time in their life, if asked. This represents an enormous marketing gap and a tremendous opportunity. LAPA's Planned Giving service seizes this opportunity and complements the hard work of your existing development staff. To learn more see http://www.lp-associates.com/service_capitalcampaigns.php and contact Laurence at lpagnoni@lp-associates.com for a free consultation.

## NEWS

LAPA proudly welcomes Supportive Housing Network of New York (SHNNY) and CAMBA to its client portfolio. We congratulate these organizations for their commitment to strengthening relationships with their funding partners.

**LAPA serves as a "back office," providing fundraising services for small and midsize nonprofits.**

**Our model is as follows:**

- LAPA employs senior staff and consultants all of whom have extensive experience in the nonprofit sector—more experience than a small or midsize nonprofit can afford to hire.
- Our contracts cost about 20% below the cost of hiring in-house staff.
- Each client gets a unique team. We assemble a team with backgrounds in different talent and skill specialties that match your agency's mission. Together, they bring a collective wisdom to problem solving and project management that is greater than the sum of their parts. Our outcomes over the past 13 years prove that this approach produces a higher return on the fundraising dollar than one-person development departments, or development departments that do not use fundraising council.
- We publish our results annually (this report card), documenting our outcomes and disclosing clients' yearly return on investment—this is rare in fundraising. In 13 years, we have never failed to raise more money for a client than the amount the client paid in fees.
- Because it is in our clients' best interests, we take a long view and plan for long-term results. For this reason, our contracts are for three year terms. Moreover, we have shown flexibility in creating contracting terms that work for our clients.
- LAPA has created a respected brand in the nonprofit sector. Funders know that when a client becomes part of our portfolio they are serious about growth and development, and this knowledge often reflects positively on client success.

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