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Grassroots Fundraising Journal

A PUBLICATION OF
GIFT
Grassroots Institute for Fundraising Training

The Finance Issue

Fundraising & Finance
Keeping Donors in the Know
Financial Management for Board Members
Evaluating Online Performance
Grassroots Fundraising Strategy Chart

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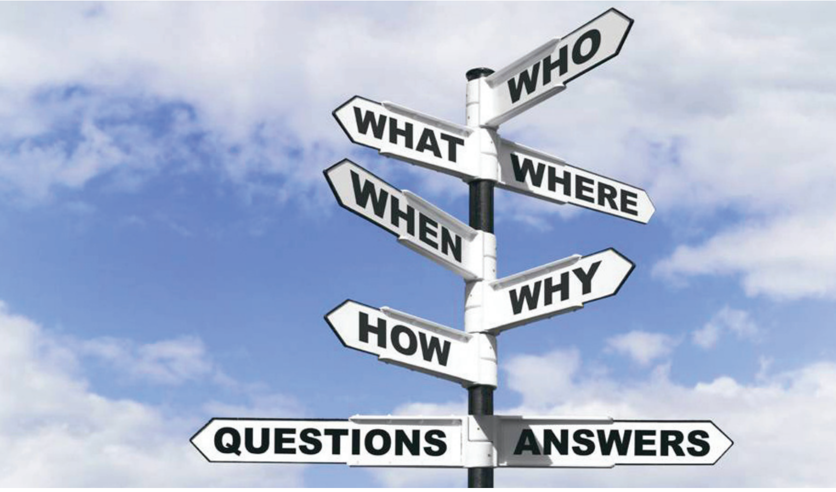

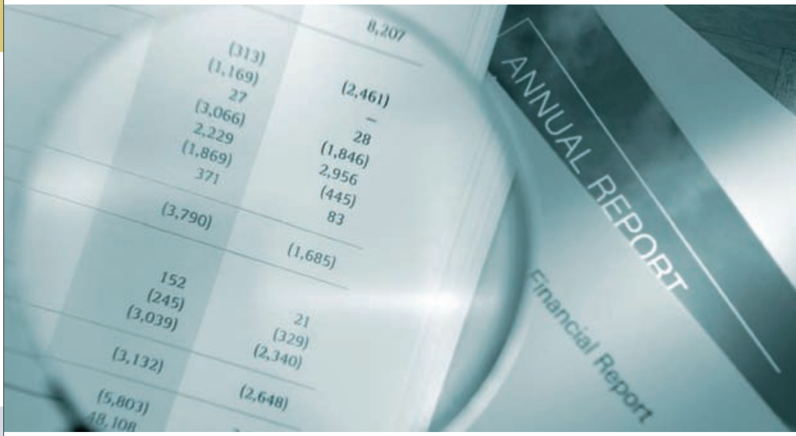

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New Year, New Numbers…

by Priscilla Hung

THERE MAY BE MORE EXHILARATING topics than finance to ring in the new year, but nothing says Happy New Year better than budget goals that were met in 2010 and a financial house that's in order for 2011.

As a fundraiser, I had to get comfortable with numbers: how many prospects I would need in order to reach a fundraising goal, the costs of using different fundraising strategies, and how to raise funds quickly when program opportunities arose. But when I became an executive director, I had to learn about finance. I credit my smooth transition into this larger world to the training I received on understanding financial statements while I was on the board of GIFT and to working for a director who supported financial literacy by having staff members rotate presenting the financial statements at our staff meetings.

In a small organization, where one person may be responsible for both fundraising and finance, it's clearly important for that person to know both fields thoroughly. But even when different people perform the different functions, it benefits everyone when the two can talk with each other. The featured articles in this issue help us bridge these two worlds.

Margi Clarke provides some great tips on how fundraising and finance can successfully work together to create financial statements, grant reports, donor data, and more. Kristen Cashmore lets us in on what donors want to know about an organization's finances. And an excerpt from Andy Robinson and Nancy Wasserman's upcoming book features information on helping boards understand their role in financial management and easily grasp some key concepts.

To round out this issue, Nzinga Koné-Miller's Tech Tips column gives an overview of how to evaluate your online fundraising efforts and how to get started collecting the right data so you have the information you need at the end of the year.

Finally, there is a handy fundraising strategy chart that breaks down popular grassroots fundraising strategies, showing the best use for each strategy and typical response rates. You may want to review your 2011 fundraising plan with this chart in hand.

At GIFT, we have an important financial goal for 2011 that we need your help to achieve: To cover the cost of producing the *Journal* this year ($125,000), we need 3,000 paid subscribers and 20 advertisers. If you are a current subscriber, please tell five of your colleagues about this great resource. If you're not yet a subscriber, please sign up today at grassrootsfundraising.org. If your organization has members, chapters, affiliates, or grantees, consider ordering discounted bulk subscriptions for them. If you have a product, service, or event that you think our audience would benefit from, please advertise with us. For questions about any of these options, email Jennifer@grassrootsfundraising.org or call (510) 452-4520 x 302. Thanks for your financial support!

Here's to a healthy financial outlook for 2011!

Priscilla

The cost of publishing the *Journal* is covered solely by subscriptions and donations made by people like you. Please help us continue this great resource! Subscribe, renew, or make a donation today at grassrootsfundraising.org or call us toll-free: 888-458-8588 x304. Thank you!

Fundraising and Finance: Learning to Speak the Same Language

by Margi Clarke

YOU WOULD THINK THAT FUNDRAISERS and finance people in an organization would get along great. After all, they both speak in terms of numbers. They both are focused on amounts raised and how the money is spent. They both use data and reports to guide their work. But even these folks often need translators to help them understand each other and the needs of each of their worlds. This article offers some tools to build common understanding and improve communication between people focused on finance and those focused on fundraising.

What's the problem?

Ever heard comments like these in your organization?

"I had to redo the thank you letters because the person entering information in the donor database didn't understand that both donors' names on the check are important to the fundraising team."

"Grant reports take me days to create because staff are still using the old expense codes, even though they changed with the new campaigns. Sorry it is late, but I have to backtrack six months to make sure the reports are complete."

"We didn't have all the files in place for the audit. Each department has been tracking staff time a little differently—and those lobbying reports are a pain!"

If you have worked in the areas of finance, administration, or fundraising (or any other position) you could probably add several of your own pet peeves about how financial information does or does not flow within the organization. Even when everyone is doing their best to follow systems in place, missteps or tensions like these are common. And since we are talking about money, such tensions might be magnified by a dash of anxiety or financial pressure that the organization may be under.

WHILE THEY BOTH "SPEAK IN NUMBERS," EACH FUNCTION HAS ITS OWN PRIORITIES AND RHYTHMS, AND EACH WORKS UNDER DIFFERENT REPORTING AND COMPLIANCE RULES.

What is at the root of these tensions? Many groups either see finance and fundraising as totally separate functions, or one person does both functions without fully understanding the perspectives of both worlds. And while they both "speak in numbers," each function has its own priorities and rhythms, and each works under different reporting and compliance rules.

Fundraising folks care about "cultivating the future," finance folks are concerned with "documenting the past."

The development perspective focuses on understanding donors' interests and complying with their intent. Donor information and narratives about the organization's accomplishments are just as important as how much money someone gave. Accounting folks, on the other hand, prefer predictable routines and consistency in applying the rules. They want to know what is projected to happen (budgets and reporting deadlines), and then they will happily report on what in fact happened. But if campaigns change quickly or you ask for a report that tracks more details than usual, it can be difficult to accelerate bookkeeping routines or make changes to past transactions to get better reports.

FINANCIAL LITERACY IS A VERY WORTHWHILE INVESTMENT TOWARD BETTER INTERNAL COMMUNICATION BECAUSE IT SHARES KNOWLEDGE AND POWER ABOUT HOW MONEY IS MANAGED IN THE ORGANIZATION.

Building Healthy Communications Between Finance and Fundraising

There are three main keys to avoiding mis-steps and delays:

- Build financial literacy across the organization
- Align planning cycles across teams
- Create regular communication and cross-training routines

Effective organizations invest time so that different functions understand each other and together create ways to balance accounting standards, fundraising techniques, and program and management needs. In big organizations there might be too little communication between departments, while in small organizations there might be too few checks and balances or not enough staff time to get both sets of tasks done during busy periods. Each organization has to design communication and training routines that meet its particular needs and priorities, but here are a few principles to keep in mind.

- Financial literacy is a very worthwhile investment toward better internal communication because it shares knowledge and power about how money is managed in the organization. Specifically, everyone in the organization should be taught to understand the budget and the periodic financial reports that are based on it.
- Most organizations have some annual planning routine; it pays to add a couple of items to that planning process that will update crucial bookkeeping elements, such as reviewing budget codes.
- Regular investments in cross-departmental planning and developing standing communication routines go a long way to being more effective in responding to the various needs.

10 Steps to Building a Common Understanding

Overall, more comfort with the language of finance, cross-area training, and regular communication build understanding and trust. With a combination of the following steps you can create more effective finance and fundraising operations. In looking at the following practices, think about one step you could improve in each area.

Ongoing Efforts

1. **Build financial literacy.** Ensure that all levels of staff and board understand how to read the budget and the financial reports based on it. They should also understand the rationale behind internal systems. Holding a session on basic financial literacy concepts with staff and board, and then doing a refresher training each year is a way to increase financial literacy with little cost. One way to put the theory into action is to have staff take turns giving the financial report at the staff meeting. Financials can be fun, really—try it!
2. **Increase budget transparency to strengthen shared responsibility.** Sometimes people think of the "budget" as only the expense side of the organization. Giving equal attention to where the income is coming from—including fundraising plans and expenses—helps engage everyone in finding support for the organization and gives them more confidence in how resources are being spent. (You can highlight how those "bothersome codes" translate into useful information presented in the financial reports.)

Annual and Quarterly Planning Routines

3. **Align planning cycles.** When do departments do their own planning and when do they need information from others? For example, for a grant proposal that needs to

be submitted months ahead of the coming fiscal year, can finance create an average 12-month budget to go into the proposal before the annual budget is complete? Try to adjust timing to prevent log jams.

4. **Create a master calendar.** Include on the calendar key program planning times, budget process milestones, financial report periods, grant proposal deadlines and report due dates, tax filings, and other major compliance tasks. Update the calendar quarterly to make sure relevant individual or department workplans include the same key dates. Set up mutual expectations around deadlines so everyone is aware of the ones that pertain to their work.
5. **Know what you want to report on.** Plan from the beginning what information each program or fundraising campaign needs to track during and at the end of a grant or project period. Design the chart of accounts to match closely how programs are described by staff. Have development, finance, and program staff review budget and database codes, check-request forms, and time sheets to reflect current programs.
6. **Update the systems as programs evolve.** Take time at the end of each year to review all the forms and database procedures and make updates/edits. Have a joint finance-fundraising meeting to see if there are unnecessary steps that can be dropped or new data that should be collected. Along the way, simplify, simplify, simplify.

Two Systems to Improve Communication

A Sample Effective Flow for Donor Information

- Donor and grant checks are photocopied by the person opening the mail. Checks are given to finance department for deposit, with the copies to the fundraising department.
- Development person highlights information from the donor correspondence, grant award, or copy of the check to be entered into the database and accounting codes for the relevant fundraising campaign, project, or program.
- The data entry person enters details marked on the correspondence and checks and ensures that total of entries into donor database matches the bank deposit. (Ideally, a "batch report" matching donor entries to the bank deposit is returned to the finance department for archives.)
- Data entry person prints out labels and stamps thank you postcards or letters.
- Development director adds a personal signature and mails the thank yous.

An Example of an Integrated Budgeting Process

Analysis and Preparation

- Finance director or accountant presents financial reports two to three months before end of the fiscal year.
- Executive Director (E.D.) reviews financial reports with program managers as a team to build cross understanding.
- Development team makes estimates for income—including a "risk assessment" about how solid the funds are: confirmed grants, likely renewals, and estimated goals for grassroots campaigns and events.
- Program staff outline requests for future budget needs of the programs, and changing revenue or expense categories.
- E.D. or finance manager/accountant creates the draft budget; an "average budget" for grant proposals is prepared for a rolling 12-month period.

Board Process

- E.D. proposes the budget to Treasurer or Finance Committee and outlines assumptions and risks, sometimes developing contingency scenarios.
- Financial Literacy Workshop is held with board and an annual "refresher" occurs at budget time or when reviewing financial reports.
- Board approves budget one month before start of new fiscal year.

Coordinating Budget and Workplans

- Development and finance review funding restrictions and agree on report needs.
- Finance updates budgets and codes in accounting system and updates forms.
- Annual financial literacy session for staff orients them to budget and codes.
- Quarterly or monthly review of financials and reporting deadlines held among executive director, development director, and finance director.
- Quarterly review of financials and any budget changes by executive director held with program managers.
- Mid-year budget adjustments made with board approval if needed.

IT IS IMPORTANT WE "WALK THE TALK" OF OUR VALUES AROUND TRANSPARENCY BY INTERNALLY BEING MORE EXPLICIT ABOUT FINANCIAL INFORMATION, ROLES AND POWER

Communication Routines

7. **Get the right people talking to each other.** Identify and reflect on who is communicating with whom and how often there are communications between those handling finance and fundraising. How much of that communication is formal (forms, memos, and meetings) and how much is done informally (in the hall, between other tasks, by email)? How much is done directly, how much through a point person? Are there points of duplication or other tensions you can release?
8. **Experiment with new ways to communicate.** If you have been only meeting "as needed," try having a daily 10-minute check-in of senior finance and fundraising staff. If one person seems to need to talk to lots of other people individually, see if a joint team meeting could be more efficient. Check in after a month to evaluate whether the new routines are more fruitful.
9. **Shake it up!** When training someone new or if assigning a temporary person to cover for someone's vacation, ask for their suggestions on how to improve the process. A fresh perspective may bring helpful new ideas. Offer staff the opportunity to shadow a job elsewhere in the organization, or give incentives to cross-training to build skills and common understanding. It is a win-win for the individual and the organization when more people know what it takes to run the whole operation.
10. **Don't ignore red flags.** We can try hard to improve and train up to meet the needs of our organizations as they change, grow, or even shrink. But sometimes we are not able to sustain improvements, or the team does not have the skills needed as operations become more complex. If your organization has long-standing tensions around finance and fundraising, or is consistently not getting timely financial reports or the fundraising tools you need, consider doing a more complete review of your systems, perhaps bringing in an outside consultant to do an assessment, and consider making bigger changes.

Of course, no set of forms or trainings or meetings is going to guarantee that all these systems flow perfectly, but regular investments in training, planning, and communication can only help things get better.

Shared Information Builds Shared Power: Challenges to Organizational Culture

At a recent workshop, one participant said, "None of us fully understands the budget because the executive director is pulling in the information from us one by one. I can't solve the communication problems between our departments if he is the middle."

Sometimes financial information is closely held by executive and board leaders, or is shared in fragmented ways. Taking the steps suggested here implies shifts in power and changes in the culture of the organization around decisions about resources. For social justice organizations, it is important we "walk the talk" of our values around transparency by internally being more explicit about financial information, roles and power but also not fall into pie-in-the-sky solutions or endless process. A financial leader is sensitive to individual interests, pragmatic factors, and organizational priorities and approaches hard decisions with an organizational hat on. When done well, financial transparency and literacy help others develop those leadership abilities as well.

Raising and spending money are core activities all nonprofits engage in. We need to bring to them all the necessary skills, good thinking, and dedicated hard work we bring to the programmatic work we do. All functions have a place in achieving the organization's mission. A starting point to financial transparency can be the clear articulation of organizational practices about when staff and board have input versus decision-making power in the budget process. Just this simple clarity can be very empowering. Done thoughtfully and consistently, greater financial literacy builds knowledge and trust as well as clarity about roles and strengthens the organization overall. ■

Margi Clarke is an organizational development consultant with 25 years of experience with grassroots social justice groups and social purpose enterprises such as worker-owned businesses. Margi works nationally from the SF Bay Area and is part of the RoadMAP Consulting network of capacity builders for social change. She can be reached at margiclarke@comcast.net

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Keeping Donors in the Know

by Kristen Cashmore

MOST FUNDRAISERS ARE FAMILIAR with their organization's mission and programs, but how many know what the latest balance sheet showed—or even what a balance sheet is? If you are a fundraiser who is not familiar with your organization's financials, you may be caught short when a donor asks you about them.

Although people giving at the basic membership level are interested in the viability of your organization, they may not be that interested in the nitty gritty of your organization's finances. However, those considering major gifts often want to hear details about the sustainability of your organization before investing in it. Here are five key questions donors may ask—and that you should be prepared to answer.

Is the Organization Financially Stable?

By this question, most donors are wondering if the organization has enough money to carry out its immediate work.

Stability can be demonstrated in numerous ways. One is by having three to six months of operating expenses on hand; another is not having outstanding bills for more than 90 days. Also, a healthy organization should have a reserve, which is a surplus of money that has been carried over from a previous year. Not only is it legal for nonprofits to show a surplus at the end of each fiscal year, it is an ideal situation. A reserve gives an organization a cushion if it experiences a large, unexpected expense, a loss of funding, or a reduction in donations.

The most critical indicator of stability is that the organization is not running an operating deficit—that is, that expenses are not greater than income in a given year. If an organization has an operating deficit in one year and doesn't have reserves from a previous year to cover the gap, it appears to be unstable. If an organization shows operating deficits over several years, it looks to be unsustainable and a poor choice for a donor's support.

What Are the Main Sources of Funding?

In this category, donors want to know that an organization is receiving income through a variety of funding streams and is not overly dependent on any single source, such as a large government contract or foundation grant.

If an organization receives more than one-third of its funding from any one source and that source is no longer able to fund the organization, then staff and the board have to scramble to start using other fundraising strategies. Many organizations that were overly dependent on government contracts, for example, have experienced this situation recently, as local, state, and government funding have dried up. Now these groups are trying to implement direct mail and major donor campaigns, but are realizing that they need to build staff and board skills in these areas as well as invest money and time in tools and systems to support these different fundraising activities. (In addition, the IRS frowns upon the practice of an organization having more than one-third of its funding coming from a single source for more than four years in a row.)

Is There a Mix of Grassroots and Major Donors?

Although gifts from individual donors are the most renewable and upgradable source of income, donors still want to make sure that an organization, especially one with a small budget and a majority of income coming from individuals, isn't overly dependent on any single major donor.

Just as it's not advisable for an organization to depend on any single funding source, relying on a single donor for more than one-third of its income makes an organization vulnerable if that one donation were to cease. Also, major donors like to know that they are in the company of others who are making significant gifts to the organization. Additionally, showing a pool of smaller gifts shows that all donations are valued—as they should be.

Are 100% of the Board Members Giving?

Most readers of the *Journal* know that board involvement in fundraising is key to the success of any organization, and that successful individual fundraising starts with board members making a thoughtful gift of their own. This level of involvement demonstrates to potential donors that the whole board is committed to the group's mission and programs—as well as to its stability and success. In fact, some donors and funders require 100% board giving before they will make a donation or grant.

As a corollary to this question, many donors want to know whether the person soliciting them for a gift is also a donor—the answer should always be "Yes!"

How Much Money is Spent on Programs?

Nearly all donors are interested in seeing that most of their donation is going to programs, but there is no definitive percentage of administrative and fundraising expenses for all organizations. This percentage will vary among organizations based on their mission, program activities and how long they have existed.

For instance, an organization that sends out ten fundraising appeals a year that include petitions or other advocacy materials will show higher fundraising expenses than a group that only sends out two appeals a year, but there is a programmatic purpose that is also fulfilled. Nonetheless, it is generally accepted that at least 70 percent of an organization's budgeted expenses should go toward program activities.

Although donors have been taught to ask this question as a way to identify budgets that are bloated with personnel or fundraising costs, with their answers, organizations have an opportunity to educate their donors about the need for personnel, office space, equipment, and supplies along with a fundraising infrastructure so that those programs can create the change in which the donor wants to invest.

Other Questions

As interested as some donors are in the financial statistics of an organization, most are also aware that the mission, programs, and leadership are equally important, and they may also ask penetrating questions on these topics. Those questions give you the chance to talk about the qualifications and accomplishments of the staff, board, and other organizational leaders as well as the impact the group is having in the communities where you work. ■

Kristen Cashmore has more than 12 years of experience, as both a staff member and consultant, fundraising for social justice organizations. She is currently the Board Treasurer of Network in Solidarity with the People of Guatemala. This is her third article for the *Grassroots Fundraising Journal*.

What Every Board Member Should Know About Financial Management… and Probably Doesn't

by Andy Robinson and Nancy Wasserman

AS NONPROFIT ADVOCATES AND CONSULTANTS, we've spent a collective fifty years working with a variety of organizations, especially community-based groups. After all these years, we still dream about the perfect trustee. When considering the board's role in financial oversight, the dream goes something like this (cue dreamy music…)

I run into a friend in the grocery store. We're hanging out in the aisle, chatting about our neighbors and families, when the conversation turns to a local nonprofit.

"Aren't you on the board of Neighbors Helping Neighbors?" I ask.

"Yeah, a little over a year."

"Your first board?"

"Not if you count my kids' preschool, which was a big mess. This board did a nice job orienting me, so I've got a pretty good idea of how things really run."

"I'm familiar with the group, but I don't know how big they are. What's the annual budget?"

"About $300,000 last year. We're hoping to get to $350,000 this year."

Being a fundraiser, I ask, "How do you raise the money?"

"Well," she says, "about half of our budget comes from state funding, a quarter from the city and county, and the balance comes from foundations and individual donors, including 5 percent that we raise at our annual dinner. Would you like to buy a ticket?" she asks, raising one eyebrow.

"Of course," I say, laughing. "But first, tell me where the money goes."

"We're a social service agency, so the biggest line item is salaries: about 70 percent of the budget. That includes staff to coordinate almost 100 volunteers. The rest goes to rent, utilities, accounting, staff development, the usual stuff. We also pay mileage for volunteers, because they do a lot of driving. We like to say that 85 percent of the money we raise goes to program costs."

Because she seems perfectly comfortable with the conversation, I press on. "Do you have a reserve fund?"

"Not a formal one," she says, "but we try to have money on hand to manage our cash flow needs. Our goal is to have three or four months' operating income in the bank, in case our state funding is reduced or delayed. We're a little short of the goal, but if the benefit is a big success, we plan to rebuild our reserves. Now about that ticket…."

Download this article and worksheets at grassrootsfundraising.org/archive

We wake up smiling. What a lovely dream!

One can debate what all the dimensions of board leadership entail, but one essential aspect is written into the law governing nonprofit organizations: fiduciary responsibility. These are big words, and they don't mean simply approving a budget or signing off on an audit. In the deepest sense, accepting fiduciary responsibility means integrating financial thinking into every aspect of board governance. If you don't know the basic financial information by heart—if you're not steeped in the numbers and understand why they're important—it's very hard to exercise that responsibility.

So imagine we bump into each other and start asking about your organization. Could you answer the following questions—or would you turn and run?

- What's your annual budget?
- What is your current income mix—and what would be the best mix of income for your organization?
- What are your largest expenses? How much of the budget do they consume?
- Do you have a policy about building a cash reserve? How much money do you need in your reserve fund? How would you use it?
- What are your organization's biggest financial risks?
- How do you use financial management tools to measure your impact? Does your organization compute the cost per unit of service: for example, for each client you serve, audience member you entertain, acre you protect?

These questions are captured in the online worksheet, which we encourage you to share with your board. If you can answer them with confidence and clarity—and you can answer most of them without shuffling through a pile of papers—please pass this article to a colleague and consider mentoring that person in the joys of financial management.

Learning a New Language: Financial Management Isn't Really About Math

> "There is no magic or secret to financial management. You know more about it than you think you do."
>
> —Terry Miller, *Managing for Change*

It won't surprise you to learn that financial management is a weak link in many, many organizations. Planning and budgeting combine all the money taboos with that common disorder, math phobia. Put a spreadsheet in front of many nonprofit leaders and they'll run screaming from the room, or try to escape without being noticed.

Terry Miller's book, *Managing for Change*, is aimed at staff, but his advisory holds true for boards: "If you try to avoid financial management, the ironic thing is that you may spend more of your time on it than you would otherwise—like any good discipline, good financial management makes life more systematic, easier to get the work done."

As the Institute for Conservation Leadership (icl.org) says in its guidebook for executive directors, "The biggest barrier to good financial management isn't mathematical ability or accounting know-how, it's attitude. For many of us, accounting and financial management are downright intimidating. The language of professional accounting—accounts receivable, temporarily deferred income, and the like—tend to make it so."

The language metaphor is instructive. Some of us have a natural gift for learning foreign languages, while others have to work a little harder. But for anyone who has struggled to master a second or third language—Spanish, Chinese, English, whatever—there comes a moment (or perhaps a series of moments) when things begin to click.

Instead of laboriously translating each word inside your head, the words just arrive. As you gain more practice, they arrive in phrases or complete sentences. Pretty soon you're ordering off the menu, reading the weather forecast, asking for directions, and telling stories. When you nod off to sleep and start dreaming in your second or third language, your relationship with that language grows deeper and more familiar.

The ICL guidebook offers (and debunks) several myths, which are adapted below with permission. We have mixed in a few more for good measure.

Four Myths of Financial Management

Myth 1. Attention to finances detracts from the "real work." So many nonprofit advocates and program managers, not to mention board members, have bifurcated brains: program work and advocacy on one side, fundraising and finance on the other. Our goal is to break down that barrier and help you to integrate your thinking.

Skilled staff members use financial data to track program results and assess their cost-effectiveness and overall effectiveness compared to other options. For example, how much does it cost per subscriber to produce this magazine—and how does that compare to similar publications? Sharing these data with trustees helps them provide appropriate oversight. If you can't track and measure your impact, how will you know whether you're doing the real work? How will you know if your work is working, or if you're using the funds as effectively as you'd like?

Myth 2. Only people who understand finances need to look at the numbers. Maybe you don't know anything about

Full-size worksheets are available at the end of this publication (Page 17)

Financial Management 101

What every board member should know…and probably doesn't

Can you answer these questions without referring to your board materials?

1. What's your organization's annual budget?
2. What are the current sources of income for the organization – and what would be the *best* mix of income? (Look at the attached Income Diversification Form.)
3. What are your largest expenses? What percentage of the budget do they consume?
4. Does your organization have a reserve fund? How much money is in it, and under what circumstances can it be used?
5. What are your organization's biggest financial risks?
6. How do you use financial management tools to measure your organization's impact? Does your organization compute the cost per unit of service, such as for each client you help, audience member you entertain, acre you protect, etc.?
7. What would help you to better understand your organization's financial status?

Courtesy of Andy Robinson www.andyrobinsononline.com

Your Organization's Income Diversification

Organization: ________________________________

Year founded: _______

	Last year's actuals		*Current year budget*		*Goals for ___________*	
	Amount of income	*Percentage of total*	*Amount of income*	*Percentage of total*	*Amount of income*	*Percentage of total*
Foundations						
Corporations						
Government						
Membership dues and donations						
Board giving						
Major donors[1]						
Benefit events						
Earned income (sales, fees, etc.)						
Investment and interest[2]						
Other (specify):						
Total:						

[1] You define "major."
[2] Includes income from endowments.

Bozeman, MT: 406-582-1838 **Institute for Conservation Leadership** www.icl.org Takoma Park, MD: 301-270-2900

Get electronic copies of these worksheets by downloading this article from the grassrootsfundraising.org/archive. Email Jennifer@grassrootsfundraising.org if you're a current subscriber in need or your password or start your subscription at grassrootsfundraising.org/subscribe!

electricity, but you're smart enough to call an electrician when the lights go out. Throwing a party for fifty people? Find a good caterer. Planning your retirement? Hey, professionals can help with that.

In each of these situations, you don't have to solve the problem yourself, but you need to know enough to be concerned, be engaged, and ask good questions. For example: Am I using too many appliances at the same time? If we feed everyone hamburgers, how much will it cost? How much money do I need to save and invest each month?

You don't need to be a CPA or a financial genius to be an effective trustee. However, you'll want enough basic wisdom to participate in the financial discussions, affirm good decisions, and raise concerns. Several good questions are outlined earlier in this article; for example, "What are our biggest financial risks—and what are we doing to manage those risks?"

Myth 3. My questions are so basic (and dumb). I'll look foolish asking them. Effective leaders don't know all the answers, but they insist on asking the questions necessary to get those answers. Organizations fail for a multitude of reasons, but never because someone asked too many questions. Sometimes they fail because no one asked enough questions early enough to uncover and address the underlying problems.

Myth 4. I don't understand the language; therefore I can't understand the concepts. As we suggested earlier, you know more than you realize. If you know you don't have enough money to pay the rent or staff salaries until that major donor pledge is received and deposited in the bank, then you understand the principle of cash flow. You know Dad will send you $50 every year on your birthday; that's an account receivable. The $1200 you owe on your credit card (and why did you buy that new sofa)? Accounts payable. How about if your expenses are greater than the money you bring in each month? That's what you learn from a statement of activities.

This magazine was founded on the principle that everyone, regardless of job title or social class or educational background, can learn to be an effective fundraiser. We'd like to offer a friendly amendment: everyone—even the financially phobic—can (and should) learn the basics of financial management. Here's the good news: you already know more than you realize. ■

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How's the Program Working? Using Benchmarks to Evaluate Your Performance Online

by Nzinga Koné-Miller

LET'S FACE IT—WHEN YOUR ORGANIZATION is investing time and money into running an online communications program, it may not be sufficient that your efforts are expanding your organization's reach, generating interest in the issues you focus on, or creating a sense of extended community. Even if you are achieving these results, stakeholders in your organization (perhaps including yourself) need to see the numbers that support—or, at the very least, shed some light on—the results of your efforts to build, cultivate, and fundraise from your online list. This is where benchmarks come in.

There are some very good industry benchmark publications that will provide you with aggregated data from other nonprofit organizations (see box on next page). These should be consulted as a part of any long-term review of your program's performance, as they are a good barometer of what's possible in the universe of online programs. But they are guides—not rules—and cannot offer you the value of a comparative review performed using your own in-house benchmarks. Using your own data—for example, comparing your year-to-date performance with your performance year-to-date at the same time last year—makes it easier for you to chart the trajectory of your organization's performance over time. This information will give you a bird's-eye view of how your program has been performing longer term and can provide you with the number to try to beat when setting goals—your own.

Since differences between your current metrics and external benchmarks could be due to something that is unique or unusual about your organization or your audience, reviewing your organization's performance over time in concert with a comparison to industry benchmarks may be the best way to determine whether you need to consider a change in your approach.

For example, if you have a list that is made up of legacy donors who have been very slow to transition from offline to online giving, the difference in your performance as compared to an industry benchmark could be significant—but it may not mean that your online communications are failing to have an impact on giving.

This reality leads us to another reason for maintaining your own benchmarks: they give you more context for comparing with industry benchmarks. For example, some organizations will compare the performance of a few fundraising emails sent over the course of one month (or even just the performance of a single email) to industry benchmarks to get a sense of whether their performance was reasonable. However, depending on the data you're using for your evaluation, this practice could result in comparing a month's worth of your data to a year's worth of aggregated data in the benchmarks report. Many organizations will see differences—some of them dramatic—in their performance month-by-month over the course of the year. Using a benchmarks report in this manner results in a comparison that is more "apple slices to apples" than it is "apples to apples."

For industry numbers to be useful for getting a sense of the big picture, the best-case scenario is to compare your organization's data for the same time period to that of the period in the industry benchmark—their year's worth of data to yours.

You might be thinking, "I don't have the time/staff/energy to compile a year's worth of data!" It's true that maintaining your own benchmarks means doing reporting—and lots of it! But here's the thing: reporting and analysis should already be an ongoing part of running an online program. No online program should be without it, as it aids your ongoing evaluation of your performance—and could affect how your communications budget is spent. Assuming you have access to simple reporting on the performance of your online efforts—as discussed below—making the transition from simple reporting to developing your own benchmarks should be a matter of consistent documentation of your results. Going forward, it should require minimal additional effort and time to add the metrics you pull for each of your campaigns into a single spreadsheet and to categorize them according to message type. The payoff? Data that give you a better tool for measuring the fruits of your labors online.

It might not be reasonable for you to compile this type of data retroactively. If that's the case, start now, at the beginning of the year, and by year's end you will have compiled a very useful picture of your online results. At minimum, you should track the following for each email effort:

- **Number of emails delivered.** This is an important number, since you can use it to calculate other critical metrics. Unfortunately, not all tools will tell you the number of emails that were successfully delivered; if that's the case with the tool you use, just track the number of messages that were sent.
- **Open rate & number of openers.** In a sense, "open rate" is a misnomer, as simply opening an HTML email without downloading the images it contains will cause an "opener"

not to be included in your count. Still, open rates are useful for tracking trends over time. If your open rates are going down rapidly, this could be a sign of issues requiring further investigation.

- **Click through rate & number of clickers.** The click-through rate is the percentage of email recipients who click on a link in your message (ideally, this calculation does not include clicks on unsubscribe links).
- **Conversion rate & number of action takers.** The conversion rate is the percentage of users who land on a page and then actually complete the action requested on that page (usually an action or donation).
- **Number of gifts & revenue (if a donation appeal).** This is the number of donations received and total dollar amount generated.
- **Average gift.** This is the total amount of donations received in response to your appeal, divided by the number of donations.

These six pieces of information do not add up to a lot of data; but they can provide valuable additional metrics that can be tracked or calculated in your spreadsheet using the numbers collected from them:

- **Clicks per open rate:** the percentage of recipients who click on a link ("number of clickers" from above) divided by the number of recipients who opened the email ("number of openers").
- **Response rate:** the percentage of email recipients who complete the desired action, usually donating or completing an advocacy form.
- **Unsubscribe rate:** the percentage of recipients who unsubscribed from your messaging. It's worth tracking this number so you can easily identify outliers to your typical unsubscribe rate and try to determine the cause of any upticks or particularly low numbers.

Additional metrics that you should be tracking are your average online gift (from all sources, not just those that can be tracked directly back to your online communications efforts); list growth (the total number of new members added to your email list each year); and list churn (the total number of people who unsubscribe or whose email addresses begin to bounce).

When tracking benchmarks, it's a good idea to keep your messages in distinct categories, as different types of messages will typically perform very differently—for example, lists are naturally more responsive to action alerts than to donation appeals. Here are two ways to consider breaking down your data so you can see how your performance varies by message type and over time:

- **By message type.** Was this advocacy, cultivation, or a fundraising email?
- **By month.** Among other things, being able to see how your numbers fluctuate over the course of the year can provide useful information to help you plan your campaign calendar in the coming year.

Once you've got all this data, what do you do with it? Let's take response rate as an example. Let's assume that last year's year-to-date response rate for your advocacy messages averaged 4 percent, but this year's year-to-date average is down to 2 percent. This degree of change—whether it's an improvement or decline in performance—warrants further investigation to determine if there's an issue that needs to be fixed or a change that has already been made that you can continue to capitalize on.

Further, these numbers can give you insight that can help you set goals for your communications program. Goal setting for campaigns and programs is not an exact science, but is ideally informed by applicable data from your previous efforts. If, for example, you've made no efforts to increase your donors' average gift size, yet your average gift in 2010 was $65 and in 2009 it was $62, you might determine that by implementing strategies and tactics aimed at increasing the average gift, you can set as a goal an average gift of $71 in 2011.

Compiling your metrics into an internal benchmarks document will go a long way to taking much of the guesswork out of the question, "How's the program working?" By keeping records of your performance over time, you'll create a simple way to chart the trajectory of your metrics, identify potential issues, and set informed goals for your campaigns and your online communications program overall. ■

>> See fundraising strategy chart on page 14.

Nzinga Koné-Miller is an account director at Watershed, a consulting and services firm designed expressly to help organizations build, grow, and sustain relationships with constituents online.

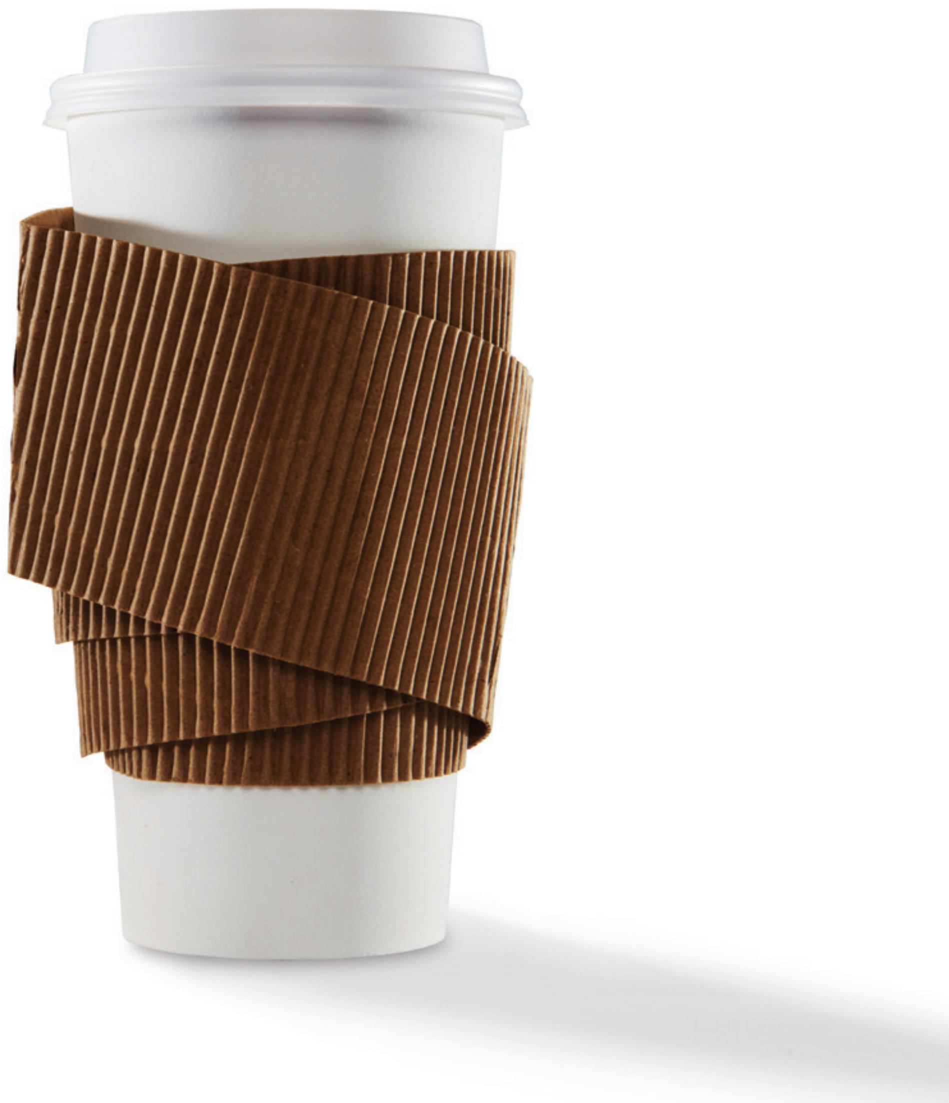
Nonprofit Benchmarks Studies

Below are links to a few industry benchmarks, which can be useful guides for getting a sense of typical online metrics.

2010 eNonprofit Benchmarks:
e-benchmarksstudy.com

The Convio Online Nonprofit Benchmark Study:
convio.com/files/2010-Benchmark-Report.pdf

Nonprofit Social Network Benchmark Report:
nonprofitsocialnetworksurvey.com/download.php



Grassroots Fundraising Strategy Chart

by Mimi Ho

Adapted from "Choosing the Right Fundraising Strategy," by Kim Klein & Stephanie Roth, *Grassroots Fundraising Journal,* Vol. 18, no 3, June 1999

Here is a tool to help develop your fundraising plan for the new year. By understanding which strategies are good for what purposes, you can make sure you're using the strategy that is effective for your purpose—not just what you are used to doing. Knowing what kind of response rates to expect can help you more accurately predict how many people you need to ask to reach your goal. For an even higher response, consider combining strategies.

Strategies Requiring Some Personal Knowledge of the Prospect by the Solicitor

What It Is	Expected Response	Best Use	Comments
Personal Face-to-face Solicitation Meet with a prospective donor by pre-arranged appointment & ask for a contribution Prospect has ABC: **A**bility to give in the range you're asking for, **B**elief in the cause **C**ontact with the organization or person asking (that is, the solicitor and the prospect know each other)	50% say yes 50% of those agreeing will give less than the amount you asked for	Upgrade donors Bring in large gifts from qualified prospects Raise large amounts of money quickly	Start with people you know, at whatever level of giving is appropriate for them
Personal Phone Call Caller knows the prospect, makes call, & asks for contribution over the phone	20–25%	Upgrade donors to a higher gift, especially people giving more than $100 but less than your group's definition of a major gift Raise large amounts of money quickly	Use with major donors who can't be visited easily For donors unwilling to schedule a face-to-face meeting, phone contact is second choice
Personal letter or Email Key difference from direct mail: there is a relationship between the person writing and the prospect	10–20%	Low-key way for board, staff, & volunteers to ask friends & colleagues for gifts Get donors already known to people in the organization to renew their gift Sometimes useful for upgrading gifts	Usually good to have more personal contact with donors after letter, either by phone or in a meeting, but letter alone can also generate money Email only gets this kind of response if the person asking knows the prospect personally

Strategies Not Requiring Personal Knowledge of the Prospect

What It Is	Expected Response	Best Use	Comments
Door-to-door Canvass Volunteers or paid canvassers go door-to-door in designated neighborhoods, asking residents to become a member or give a contribution	10–15%	In combination with an organizing drive in which people are asked to sign a petition or express an opinion as well as join the group and give money	Solicitors usually don't know the prospects, so response may be low A certain percentage will answer the door, so solicitors can engage face-to-face in a deeper way than writing or phoning those people Gifts are often small, and it's hard to get donors to repeat them, other than through further door-to-door contact
Phone-a-thon A group of people are recruited (or hired) to come together over one or more evenings to call a list of prospective donors who may be interested in the organization's work; sometimes used with current donors who give smaller amounts or whose membership has lapsed	5% 15% if current donors	Reach large numbers of people with a message they can respond to immediately Bring in a large number of small and medium-sized gifts quickly	Good initial training for volunteers in how to ask for money from people they probably do not know Works best when donations by credit card accepted
Direct Mail An identical letter (not personalized) is sent by bulk mail to a list of 200 or more people who haven't given (or sometimes to lapsed donors), but who have shown some interest in your or similar issue	.5–1% 10% if current donors	Acquire new donors Reach people you have no other way to contact	Can often cost as much as or more than it brings in, so important to follow up with getting these donors to make renewed gifts
Email (to new prospects) Email blast to a list of people who have never given to the organization	.5–1%	Acquire new donors Good when this is the only contact information you have for someone Best way to drive traffic to your website	More cost effective than direct mail (though there are technology costs to be able to send bulk email)
Special Event Gathers a group of people to do something fun, entertaining, and/or educational	Varies by event	Strengthen relationships with donors Raise money from sources you might not otherwise have access to, for example, small businesses Good for goals that are not strictly financial, including: To build sense of community in the organization To introduce new people to your work To gain publicity for your organization	Most successful events combine strategies for acquisition, retention, or upgrading of donors Very labor-intensive, may not be best for small organizations House parties are a good variation—require less time, labor and up-front costs

Financial Management 101

What every board member should know…and probably doesn't

Can you answer these questions without referring to your board materials?

1. What's your organization's annual budget?

2. What are the current sources of income for the organization – and what would be the *best* mix of income? (Look at the attached Income Diversification Form.)

3. What are your largest expenses? What percentage of the budget do they consume?

4. Does your organization have a reserve fund? How much money is in it, and under what circumstances can it be used?

5. What are your organization's biggest financial risks?

6. How do you use financial management tools to measure your organization's impact? Does your organization compute the cost per unit of service, such as for each client you help, audience member you entertain, acre you protect, etc.?

7. What would help you to better understand your organization's financial status?

Courtesy of Andy Robinson www.andyrobinsononline.com

Your Organization's Income Diversification

Organization: ______________________________________

Year founded: ________

	Last year's actuals		*Current year budget*		*Goals for ____________*	
	Amount of income	*Percentage of total*	*Amount of income*	*Percentage of total*	*Amount of income*	*Percentage of total*
Foundations						
Corporations						
Government						
Membership dues and donations						
Board giving						
Major donors[1]						
Benefit events						
Earned income (sales, fees, etc.)						
Investment and interest[2]						
Other (specify):						
Total:						

[1] You define "major."
[2] Includes income from endowments.

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—BARACK OBAMA

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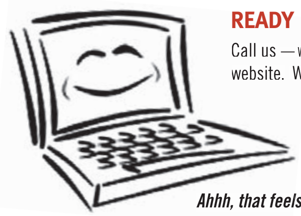

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