



**Sage Labs Research Journal: November 2008**

## **Topic: How Do Economic Downturns Affect Nonprofit Fundraising?**

### **Scope of Research:**

*In* an effort to provide nonprofit leaders with both quantitative and qualitative information that will help them effectively navigate today's difficult economic times, the Sage Labs team took on the task of analyzing how economic cycles have historically impacted nonprofit giving. In this journal we summarize the key findings from this research and offer recommendations on how to best apply these findings to your organization's efforts.

### **Source Material:**

As part of this research project we conducted extensive quantitative and qualitative testing. With the exception of the raw numeric data used in section one to compare the overall economy to total giving, the majority of the information offered came from a combination of both global and test group specific data analysis as well as interviews. More specifically, the following four sources were directly used for this research project.

1. Analyzing several thousand "asks" done by Sage affiliated consultants. These asks represent more than 150 campaigns for organizations in several different nonprofit categories and span the past 37 years.
2. Analyzing the historic results achieved by a variety of nonprofit organizations who conducted fundraising efforts that did not involve Sage affiliated consultants.

3. Analyzing the giving tendencies of organizations, foundations, and individuals who have a history of giving to nonprofit organizations and have experienced at least one downturn in the economy.
4. Analyzing data accumulated by several third party sources who work closely with the industry.

*Research Note: Why 37 years? We chose to start our evaluation in 1970 because the data we were able to compile for the decades before 1970 proved to be too inconsistent to be used for scientific research.*

### **Nonprofit Sectors Analyzed:**

While the “universal” data that will be presented reflects overall dollars given to all 501C3 and 501C6 organizations in each respective year, the specific analysis conducted came from fundraising efforts in the following nonprofit sectors:



- Economic Development: 50% of the data represents this sector.
- Museums/Cultural: 20% of data represents this sector.
- Educational: 15% of data represents this sector.
- Religion/ Faith Based: 10% of data represents this sector.
- Arts Organizations: 5% of data represents this sector.

**Nationwide Historical Data:** Starting with the overall picture, in this section we compare the total dollars raised by all nonprofit organizations in each year from 1970 to 2007 to the Dow Jones Industrial Average (DJIA) in each respective year to see what correlations can be deduced between the two.

### **Test Parameters:**

In conducting this analysis we used the Dow Jones Industrial Average on the last day of each calendar year as the determining “standard” factor when comparing dollars given to nonprofit organizations and the economy in the year that the dollars were given. We chose to use this measurement for a number of reasons:

1. **Consistency:** While the economy is clearly judged on many factors including real GDP growth, real personal income, non-farm payrolls, industrial production, wholesale sales, and retail sales, we could not use any of these factors because they did not always coincide with economic downturns. For example, during several of the recessions that we

analyzed several of the above listed indices ran counter to the predominant factors at the time. In addition, we considered several other quantitative financial indices including the Standard and Poor's, Russell 2000, and others. As with the above, these indices were often inconsistent with the overall economic cycles. The DJIA was the only one of the indices that consistently moved with other economic indicators. It was always down during cycles that by definition were considered recessions, and always moved up during better economic cycles.

2. **Objectivity:** Since the DJIA is simply a number, it can be compared to other data with minimal considerations to outliers.

### Test Data:

In table 1, we compare the DJIA on the last day of each year from 1970 to 2007 to the total dollars given to nonprofit organizations in these years.

Year	Dow Jones Average	Percentage Change	Dollars Raised by Nonprofits	Percentage Change
1970	839	N/A	\$18 billion	N/A
1971	890	5.70%	\$21 billion	14.30%
1972	1020	12.70%	\$21 billion	under \$1 billion change
1973	851	-16.60%	\$23 billion	8.60%
1974	616	-2.77%	\$27 billion	15%
1975	852	2.77%	\$28 billion	3.50%
1976	1005	15.20%	\$30 billion	6.60%
1977	831	-17.30%	\$40 billion	25%
1978	805	-3.10%	\$42 billion	4.70%
1979	839	4%	\$46 billion	8.70%
1980	964	13.00%	\$48 billion	4.10%
1981	875	-9.20%	\$55 billion	12.70%
1982	1047	16.40%	\$59 billion	6.80%
1983	1259	16.80%	\$63 billion	6.30%
1984	1212	-3.70%	\$68 billion	7.30%
1985	1547	21.60%	\$71 billion	4.20%
1986	1896	18.40%	\$83 billion	14.50%
1987	1939	2.20%	\$82 billion	-1.20%
1988	2169	10.60%	\$88 billion	6.80%
1989	2753	21.21%	\$98 billion	10.20%
1990	2634	-4.30%	\$101 billion	2.90%
1991	3169	16.90%	\$105 billion	3.80%
1992	3301	4%	\$110 billion	4.50%
1993	3754	12.10%	\$116 billion	5.20%
1994	3834	2.10%	\$119 billion	2.50%
1995	5117	25.10%	\$124 billion	4%

1996	6448	20.60%	\$138 billion	10%
1997	7908	18.50%	\$153 billion	9.80%
1998	9181	13.90%	\$172 billion	8.90%
1999	10878	15.60%	\$190 billion	9.50%
2000	10787	-0.90%	\$228 billion	16.60%
2001	10021	-7.10%	\$238 billion	4.20%
2002	8342	-16.80%	\$240 billion	0.90%
2003	10454	20.20%	\$240 billion	under \$1 billion change
2004	10783	3%	\$245 billion	2%
2005	10717	-0.60%	\$260 billion	5.80%
2006	12463	14%	\$295 billion	11.90%
2007	13265	6%	\$306 billion	3.60%

-Research Note: All numbers used in this table are adjusted for inflation.

-All Dow Jones information from [dowjones.com](http://dowjones.com).

-National Giving Statistics from Giving USA.

## Conclusions:

Above all else, the data in table 1 shows that little to no correlations exist between the strength of the overall economy, as represented by the DJIA, and the amount of money raised by nonprofit organizations. Regardless of how we analyzed the data, we did not find any correlations that reoccurred with enough frequency to be considered a legitimate trend. While the overall economy had several negative growth years over the 37 years we tested, adjusted dollars given to nonprofits only decreased in 1987, and this was only a 1.2% decrease. It is our opinion that this decrease should be considered an outlier because it was partially caused by a tax change that was passed in 1986.

On the high end, the largest growth years for the economy were 1985, 1989, 1995, 1996, 2003. The economy grew on a year to year basis over 20% in each of these years. During the same time, the total year to year growth in dollars given to nonprofits was a combined 5.88%. In contrast, the poorest years for the economy were 1973, 1977, 1981, 2001, and 2002. In these years the economy saw a year to year decline of 13.4%. On a year to year basis the economy shrunk by a little over 13% during these years. At the same time, the dollars given to nonprofits increased a combined 10.12%. While we do consider the decrease in nonprofit fundraising in years when the economy shrunk to be relevant, the percentage decrease between the dollars given to nonprofits in the five strongest economic years and the dollars given in the weakest economic years is only 7.52%. This number is significant, but as will be discussed in later sections of this research, it is not necessarily as significant when considering the prospective success of any single fundraising effort.

After grouping data in over two dozen different ways, we did not find any significant correlations that would prove true in all circumstances. Simply stated, contrary to popular belief, the overall economic cycle should not be a significant consideration in nonprofit fundraising efforts.

### **Four Key Understandings when Fundraising in a Poor Economy**

While the overall dollars raised in different economic cycles did not differ, we found several trends that did seem to occur repeatedly and would be considered significant. We have broken these trends into four key understandings that every organization should consider when planning their fundraising initiatives.



#### **Key #1: More Ups and More Downs**

By far, this was the most significant trend we found in the data. We compared the average dollars raised by a test set of organizations on a yearly basis in economic cycles during which the economy had grown or maintained to the average dollars raised when the economy had shrunk.

This research shows that the variation in dollars raised was greater in poor economic times. Some organizations saw significant decreases in funding during poor economic times while others maintained funding; still others actually saw increases in funding during poorer economic times. When analyzing all organizations in our test set we saw that in any year in which the economy grew on a year to year basis, the average change in revenue was plus or minus 7% with over 84% of organizations falling within this range. During any year in which the economy shrunk on a year to year basis, the average change in revenue per organization was plus or minus 13% with 78% of organizations falling within this range.

When considering this conclusion, one must also take into account that the cumulative average change in dollars raised for the entire group of companies in our data pool was -3.1 when comparing year to year revenue in positive and negative economic cycles. Simply stated, the overall decrease in funding during

poor economic years versus an average of dollars raised in all positive economic years came to a decrease of 3.1%. With this in mind, we could clearly deduce a significant correlation between the state of the economy and the fundraising consistency across the organizations in our data pool.

Throughout the rest of this research journal we discuss several reasons why these inconsistencies occur.

## **Key #2: Sources of Dollars Change**

When analyzing “asks” conducted during different economic cycles, clear variations occurred in the research. For the sake of this research, we are breaking donors into three groups: individual, for-profit, and foundations.

**Individuals:** There are a few key findings related to individual donors. First, since they are often emotionally connected to the organizations they support, even if they are affected by a downshift in the economy they still tend to give to all of the organizations that they have historically helped; they may just give less. With the exception of extreme changes in an individual’s financial situation, we found that they rarely went from giving consistently to not giving at all. Second, about one third of individuals perceive themselves to be “largely unaffected” by economic swings. Keep in mind, there are people who have enough money that they typically give to more than one nonprofit organization, and the amount that they give is significant enough that organizations take the time to formally ask them for money. This is an important understanding because it seems to go against our basic assumptions. We are not talking about a percentage of the general population; this group represents a percentage of those who have historically had the financial means to be donors. In interviews, the one third of individuals who considered themselves unaffected would often talk about how bad things are on “other people” or on “working people”. Whether their perceptions are correct is immaterial; since they do not believe themselves to be affected they do not reduce their giving. Actually, in many cases they gave more than they had given historically because they were “making up for shortcomings in other areas”. Third, even the percentage of individuals that we found who perceived themselves to be “significantly” affected by poor economic times still gave to the organizations they saw as most important.

**Foundations:** Since most foundations are structured based on long term revenue from account interest and other investments, they are the least affected by economic cycles. Many of the foundations we spoke to have very structured giving guidelines which dictate that a percentage (or flat amount) of their dollars be given away every year regardless of the economy. While we did see situations in which foundations had reduced their giving, the reduction was never greater than 12%. In our sample group, reductions in giving by foundations in poor economies occurred 15% of the time. In contrast, the size of individual donations increased in many cases. This finding seems counterintuitive but it actually came up in several parts of our research effort. Many of the foundations we spoke to reported a decrease in requests for funds during poor economic times. After interviewing nonprofit leaders and board members we deduced that a number of organizations had actually reduced their fundraising efforts during poor economic times because of their perception that there “was no money to be had”. As such, fewer requests were submitted, and the foundation ended up giving a higher percentage of dollars to individual nonprofit organizations than it typically would have been able to.



*Research Note: The research on nonprofit leadership perception and action mentioned above is discussed in more detail later in this research.*

**For-Profit Organizations:** This is the area in which the most volatility occurs during poor economic times. This being said, the actual volatility is not nearly as significant as many nonprofit leaders perceive it to be for a number of different reasons. First, there are many cases in which perceptions are developed based on a comparison that is not apples to apples. To use a specific company as an example, we spoke to a large company in the textile industry. This company had reduced their giving during the 2002 recession by 30%. This number seems significant as a percentage; the actual reduction in giving was from \$10.8 million to \$7.56 million. If a nonprofit organization is conducting a \$3 million dollar capital campaign they are still able to get significant dollars from the company in this example. Second, our interviews definitely showed that the media plays a significant role in heightening economic sensitivity as it relates to for-profit organizations. Since the media focuses on the companies who are doing most

poorly, we perceive that all organizations are doing as poorly as the ones who are in the headlines of the New York Times. In reality, poor economic cycles are caused by different changes in the economy each time they occur. In all cases, some industries are significantly affected while others are only somewhat affected. In our interviews with for-profit companies, we did come across company leaders whose businesses had clearly been affected by specific economic downturns, but we also found many organizations whose products and services were not as significantly affected by economic trends. Additionally, 15% of the companies we spoke to were in unique niches in which they were in high demand during an economic downturn. Another significant trend related to for-profits had to do with the asking process. In almost all cases, companies continued giving to the organizations that made the best cases for support. There was a definite correlation between the quality of the “ask” and the dollars they were given. As one company CEO said in an interview “we had to trim the tree, but we are still significantly involved with several organizations”. In addition, companies tended to give more money to organizations that could show a clear and tangible benefit to the company as a result of their involvement.

### **Key #3: Relevance of Population Base, Competition, and Regional Economy.**

One of our research partners is an economic development organization who recently finished a capital campaign. This particular organization is in a town with a population under 12,000. The number of organizations in this town with more than 200 employees could be counted on one hand. In addition, they have definitely seen job losses and an economic slowdown that could be considered on par with what we have seen nationally. When you ask anyone in their town a vague question like, “should they start a major fundraising initiative right now?” the answer was usually “no.” To the surprise of most, they achieved their \$2 million dollar goal in about 10 months. Why are people’s perceptions so different from the results that this organization achieved? The biggest reason is that the question is flawed. The relevant question is whether \$2 million can be raised by this organization in the current economic conditions. There is no ideal time to attempt to raise funds. Successful fundraising is a function of many variables. The state of the economy is just one of many key considerations, and not always one of the most relevant. In conducting interviews for this research, we found that many organizations were holding back a fundraising effort because of any number of perceptions. Here are a few of the common ones:

- “There are too many competitors in this area to attempt a campaign in this type of economy.”
- “Our town is too small to raise funds in this type of economy.”

- “This region has been hit particularly hard by the economy.”

In conducting this research, we found that in most cases these types of concerns, while relevant, were not valid enough to decrease fundraising efforts. We found organizations that raised millions of dollars in cities with unemployment over 10%, cities with 8 organizations doing capital campaigns at the same time, and cities with less than 10,000 in population. We also found organizations that had all of the potential in the world, yet they struggled with fundraising because they had convinced themselves that it could not be done in their community. While we did find some very unique situations in which these concerns were relevant, more often than not these concerns were not all that relevant and only served as a crutch in holding back the organization’s growth.

#### **Key #4: The Bottom is Still Above You**

This key understanding is quite simple but also quite relevant. Simply put, 50% of something is much better than 100% of nothing. In conducting this research, we discovered that many organizations had pulled back or delayed fundraising projects of all kinds due to the economy. As we mentioned earlier when discussing foundations, some organizations actually receive far fewer “asks” during poor economic times because many nonprofit organizations just assume that there is no money to be had. In our interviews with organization leaders, we ran into this situation several times. Reasons for pulling back fundraising efforts included the following:



- “I am sure that there is not much money out there to get.”
- “I am sure organizations doing more important work will get the small bit of money available from ‘that’ foundation.”
- “I don’t know, with the economy it seems like a waste of effort.”

After analyzing the results of several thousand campaign efforts, we found that fewer than 4% of the fundraising efforts did not ultimately raise more money than was spent on the effort. We did find a number of campaigns that did not achieve their goal (frequently for reasons unrelated to economic forces), but we found very few cases in which the effort truly netted a loss for the organization. On the contrary, the poorest performing third of capital campaigns launched during economic downturns achieved an average return of 64% of goal.

*Research Note: For this example we only used campaigns with goals over 1 million dollars.*

## **Conclusions:**

After looking at thousands of spreadsheets, conducting hundreds of interviews, and analyzing the components of over 300 campaigns, the same conclusions came up time after time. While economic factors were definitely relevant in all of the fundraising efforts we researched, their relevance is often disproportionately exaggerated. By far the most relevant difference between the successful and unsuccessful fundraising efforts during poor economic times was the nonprofit leadership's perception of the impact of the economy on their ability to effectively raise funds. In researching the amount of overall funds raised by organizations who over emphasized the impact of the economy on their specific fundraising efforts, we found that they consistently raised fewer dollars during poor economic periods. When looking deeper into the decisions made by these organizations, we were able to see that their perceptions of the economy impacted both large and small decisions throughout the organization's culture. Everything from the wording of their print pieces to the types of discussions they had with people in their community was influenced by their over-emphasis on the impact of the economy. For example, we interviewed one gentleman who was with an organization and was approached by a board member about giving a significant amount of money to another organization. He explained the experience as follows, "It was as if he was convinced that I was going to say no before he even asked" the question.

## **Sage Labs Recommendations:**

- 1. Take Yourself Out of The Decision Making Process:** In many of the interviews we conducted, we found that people over-emphasized what was going on in their immediate circle of acquaintances and assigned global meaning to it. This worked both ways within our research. People who were personally affected significantly by the economy would use "the sky is falling" language. Others who did not have such hardships surrounding them would use softer language. The best thing to do is take yourself out of the equation so that you can get a clear and more objective picture of things.
- 2. Do Not Delay:** All of the quantitative and qualitative results that came out of our research showed that organizations were always better off when that were moving forward.

3. **Stay Goal Focused:** Do not have generalized conversations about fundraising. Focus on your organization's goals and how you are going to reach them. These are far more productive conversations.
4. **Work with an Experienced Fundraising Consulting Firm:** This may sound like a promotion, but the data definitely showed a difference in dollars raised by organizations that outsourced the fundraising process compared to those who tried to do it internally. The largest difference in results was in dollars raised from for-profit companies. Also, some of the more experienced consulting firms have so much historical data that they are able to guarantee the amount their feasibility process shows can be raised. This takes out all of the guess work and gives your board of directors peace of mind.
5. **Be Aware of Your Words:** If you are a leader of any nonprofit organization, people look to you to set the tone for the organization. If you constantly talk about economic issues (or any issue for that matter) negatively affecting the organization's prospects it will spread like wild fire and eventually put a cloud over your organization. In speaking with nonprofit leaders, we found a definite correlation between the attitude of the leader and the level of optimism throughout the organization. Additionally, we found that organizations that remained focused on their long term vision were much more effective in the face of short term obstacles. As a note on the tack board of one nonprofit leader we spoke with stated, "When we focus on the sun we do not see the shadows".

*A note on nonprofit sectors:* We did not include research on the impact of economic cycles on different nonprofit sectors as part of this project because we believe that Giving USA has already done a very good study on this subject. To read their research on the subject go to [www.GivingUSA.com](http://www.GivingUSA.com).

All research conducted by Sage Labs in association with Sage Fundraising Solutions LLC. Please direct questions to Frank W. Bennett, Lab Administrator.

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Lab Administrator Frank Bennett is available for a limited number of guest lectures on this subject. For information on booking please email him directly at [fbennett@sagefundraisingllc.com](mailto:fbennett@sagefundraisingllc.com).