

Nonprofit Fundraising Essentials

# Module 2 Funding Models and Diversification

Week Two



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# FINDING YOUR FUNDING MODULE

In Week One, you learned about the different sources of nonprofit funding. Now, what are some practical steps you can take to identify funders and revenue streams that are the right fit for your nonprofit?

According to the Bridgespan Group, nonprofits that raise less than \$3 million a year do not need a strictly defined funding model. It's normal for grassroots and small nonprofits to have an experimental approach with a varied mix of funding sources.

However, regardless of your size, it is important to use your fundraising time and resources wisely. This step-by-step process from the Bridgespan Group will help you narrow in on the best funders for your nonprofit:<sup>1</sup>

1. Evaluate your past approach to fundraising
2. Learn from the fundraising of similar organizations
3. Weigh the advantages and disadvantages of the funding model
4. Identify promising funders or revenue streams and develop a plan

In their article “Finding Your Funding Model,” authors Peter Kim, Gail Perreault, and William Foster illustrate each of these steps with an example from Rare, an environmental conservation organization that focuses on behavior change and locally led solutions.

Before you begin, reflect on the questions from Week One:

- + Where do you want to be in 2–3 years?
- + What is your strategic plan, including your mission, programs and activities to be delivered, and measurable goals and milestones?

In the case of Rare, the nonprofit's strategic goal was to fuel growth and expand to new countries.

1- This reading features the work of Peter Kim, Gail Perreault, and William Foster in [Finding Your Funding Model](#). It has been made available through [Attribution 4.0 International \(CC BY 4.0\)](#). To read the article in its entirety, refer to the additional resources of this module.

# 1. EVALUATE YOUR PAST APPROACH TO FUNDRAISING

What are the strengths and weaknesses of your nonprofit's approach to raising money today? You can start by assessing your historical performance in three areas:

## A. Funding sources

- + Who are your funders and revenue streams?
- + How much of this funding is predictable or renewable on an ongoing basis?

### *Example of Rare*

The majority of Rare's funding came from wealthy donors who were board members or closely connected to the board. These donors provided largely unrestricted funding and were expected to remain supporters for years to come. The nonprofit had also begun to raise money from governments and foundations, but these grants were relatively small.

## B. Funder motivations

- + Why do your funders give to your nonprofit?
- + What other types of funders share these motivations?
- + Why are donors motivated to give to

your nonprofit? By understanding your donors' motivations, you can predict which types of funders are likely to support your nonprofit in the future. You will also be able to craft more compelling pitches and proposals.

In the most successful funding models, the motivations and objectives of the nonprofit and funder are strongly aligned — a “natural match.”

### *Example of Rare*

Rare learned that its donor base consisted of wealthy environmentalists who were interested in community-led solutions for conservation. Rare worried that this audience of prospective funders was too narrow and would not allow the organization to achieve its goal of international growth.

## C. Fundraising capabilities

- + Who is responsible for most of your fundraising activities today?
- + What are the existing skill sets and capabilities on your team? What is lacking?



As you learned in Week One, every funding source has different advantages and required capabilities. For example, nonprofits must be able to write detailed proposals, report on measurable outcomes, and manage complex partnerships to be eligible for government grants. In comparison, event planning, relationship building, and storytelling are valuable skill sets for fundraising from wealthy donors.

### *Example of Rare*

Rare realized that its president and CEO was responsible for securing the majority of the organization's funding through his personal relationships. This demanded a great deal of the president's time and limited the opportunities for growth.

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## 2. LEARN FROM THE FUNDRAISING OF SIMILAR ORGANIZATIONS

- + What organizations are similar in size, mission, and/or geography to your nonprofit?
- + What is their mix of revenue streams?
- + Who are their specific funders and how do they cultivate them?
- + What are the differences between your organizations?

You don't need to develop your funding model from scratch. Instead, research other organizations to learn how they raise money. Start with your personal network and search databases like Charity Navigator and GuideStar to create a list of "peer organizations."

After that, you can find information about a peer organization's budget and revenue sources through its annual report. You can also search the organization's website to find lists of funders, board members, press releases, and donation pages.

During your research, you should seek to understand the organizational differences between your nonprofit and its peers: How might those differences affect your ability to adopt their models?

### *Example of Rare*

Rare researched organizations like African Wildlife Foundation that were similar in size and mission, as well as larger organizations like Conservation International that illustrated what it might take to grow. The nonprofit also examined organizations with different missions that were experts in raising money from wealthy donors, such as Teach for America.

### 3. WEIGH THE ADVANTAGES AND DISADVANTAGES OF THE FUNDING MODEL

- + What is the potential revenue and other advantages for this funding source?
- + What are the disadvantages and costs related to this funding source?
- + What is the competition for these funders?

Understand the amount of revenue you could raise by exploring the websites and annual reports of funders and peer organizations. If you have a good relationship with other nonprofits, you can interview them to learn more.

Additionally, you learned about other advantages associated with different funding sources in Week One, such as building an audience, unrestricted funding, and opportunities for regional or international growth.

Then weigh the constraints of that funding source and the costs of developing your fundraising capabilities. According to the Bridgespan Group, nonprofits most commonly need to invest in personnel, information technology systems, and communications.

You should hesitate before you pursue any funding opportunity that could lead to significant administrative costs or distract from your mission and priorities.

“Unless it is truly mission aligned, it could end up taking you on a detour,” said Krupa Patel, co-founder of Anza. “It might not seem like a terrible thing, but a few years later, you’re a very different organization from the one you initially intended to become.”

#### *Example of Rare*

Rare learned that USAID had contributed a significant amount of funding to nonprofits of similar size with locally led solutions for conservation. Rare also spoke with connections at peer organizations to learn about their major gifts program.

## 4. IDENTIFY PROMISING FUNDERS OR REVENUE STREAMS AND DEVELOP A PLAN

Your team has evaluated your historical approach to fundraising, learned from similar organizations, and weighed the advantages and disadvantages of different revenue streams for your nonprofit.

Now, it's time to develop a plan for building your fundraising capabilities and experimenting with the most promising funders you identified in the previous steps.

Remember, the goal of this exercise is to use your limited resources wisely and identify funders that are a “natural match” for your nonprofit. Carry out experiments to determine whether a funding source is a good fit.

“We’ve tried crowdfunding a few times, but until we have a bigger reach through social media, we have struggled,” said Juliette Williams, founder of the Environmental Justice Foundation. “Looking at the cost-benefit, we get more from an hour of writing a good funding proposal for a warm lead. That will bring far greater returns than sending out a newsletter.”

### *Example of Rare*

Rare determined that government and multilateral organizations, such as USAID, could be a “natural match” for their nonprofit. However, they didn’t have enough staff members with the necessary skill sets.

Over three years, Rare decided to strengthen its cultivation of major gifts — the majority of its current funding model — while building the capacity to pursue funding from governments and multilateral organizations in the future.

# FINISHING MODULE TWO: WEEK TWO

Great work! You've reached the end of the module. You can explore the "Finding Your Funding Model" guide from the Bridgespan Group and more readings in the Additional Resources section.

In preparation for Workshop Two, every member of your team should research a "peer organization" that is similar in size, mission, and/or geography to your nonprofit. Alternatively, you can research an organization that represents where you hope to grow.

For each peer organization, research the following questions:

- + What is their mix of revenue streams?
- + Who are their funders and how do they cultivate them?
- + What are the differences between your organizations?

Now, it's time to schedule your team meeting and get ready for Workshop Two!