

# Appendix 1-D

Too much focus on revenue

## **Nothing Can or Should Substitute for Philanthropy**

### **Why donors are so important**

I'm worried by what I see as an excessive focus on generating revenue by nonprofits.

There's a new old chant in town: "Let's start a business where customers buy stuff and then we won't have to rely so heavily on donations!" Articles proclaim that nonprofits are "finally wising up."

It's kinda like revenue is better than charitable contributions. Somehow, the reliance on donations is seen as somewhat demeaning. Even the term "nonprofit" suggests—in our capitalistic, profit-driven society—that to be nonprofit is less-than. (As an aside: Notice the trend of foundations to hire for-profit business leaders as CEOs. The message is that there is nothing unique about the nonprofit sector; no special knowledge or skills are needed. Nonprofits—including foundations—are so incompetent that they have to hire for-profit business leaders to get fixed better.)

In summary, the equation seems to be: Revenue is better than charitable gifts. Customers produce revenue so customers are better, better than donors.

### **Generating both revenue and charitable gifts**

Let's step back a moment. Since time began, many nonprofits have generated both revenue and charitable gifts. So the new news is pretty old. Just more egregious with moneymaking entrepreneurs sneering about how to start business ventures.

Theaters and symphonies produce revenue by selling tickets and refreshments. Museums generate revenue with admissions and gift shop sales. Colleges and universities charge tuition. Hospitals charge fees paid by insurance companies and government contracts.

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In addition to revenue streams, these organizations run fundraising programs that garner charitable gifts. When I worked at Trinity Repertory Company, one of the top regional theaters in the United States, we generated 70 percent of our income from revenue and 30 percent from charitable gifts. Nonprofit hospitals, on the other hand, may get only 10 percent of their income from gifts.

Revenue is great, as are the customers who produce the revenue. Nonprofits that can generate admissions, sales, and the like may well enjoy a more balanced financing stream.

### **Uniqueness of nonprofits/NGOs**

But nothing substitutes for donors and their charitable gifts. I repeat: Nothing substitutes for donors. And not because of the money. Donors are different from customers.

The uniqueness of any and all nonprofits is philanthropy, voluntary action for the common good. Individuals, families, businesses, service groups, and faith groups give time and money to build strong communities. Moms and dads, little kids, and teens volunteer in soup kitchens and clean up rivers.

People with a little and lots of money giving gifts to help others. The woman who sent a few dollars to help a charity. The school kids who sent all the pennies they collected. The banker, the janitor, the nonprofit executive director, the pastor—all sending donations to causes they care about. And sure, Bill and Melinda Gates, too.

Voluntary action for the common good. Nothing substitutes for these donors. I say “these donors,” not their gifts. Again, it’s not the money; it’s the donors. It’s the meaning of donors investing, committing, engaging in a cause.

Donors worry about the lives of others and the state of the world. Donors want to make a difference. And nonprofit charitable organizations are the means by which donors make that difference. Nonprofits/NGOs are the conduit for donors to live out their feelings and fulfill their aspirations.

Nothing can substitute for these loyal donors. Nothing can substitute for voluntary action for the common good, not even buying things.

### **Customers and donors**

Sure, revenue is good but it doesn’t substitute for charitable gifts. Sure, customer loyalty is great. I’m an ardent Apple fan. I’m a very loyal customer. But in a tough economy, I may not buy the newest iPod or the even newer laptop, which is so cool and better than the one I have.

I was a loyal customer of Michigan State University, my alma mater. But I’m not a customer any longer. I am, however, a donor. I’m a loyal donor. I’ve made a bequest in my will to MSU, too.

Loyal customers are wonderful ... those Apple buyers and Trinity Repertory Company subscribers. But the Trinity Rep subscribers who are also donors—now that's really something.

Customers and donors are not interchangeable, not even the really loyal ones. Yes, customers and donors have much in common. Just read Adrian Sargeant's book *Building Donor Loyalty* (John Wiley & Sons, 2004). But customers and donors are not exactly the same.

Loyal customers can be affected by the economy. Customers can move on once their need is met, or in search of product enhancements.

Ticket buyers may not buy tickets to the most challenging and controversial plays, even though that's the mission of the theater. Donors allow the theater to fulfill its mission rather than produce popular plays only. (Popular plays, subject to customer whim, are Broadway.)

Donors give beyond a particular play because they're committed to mission. Donors give in tough economic times. Donors increase their gifts without the expectation of goods and services. Donors can be forever, even after death.

### **Fundraising events aren't as good as charitable gifts, either**

Nothing substitutes for donors. And there's a parallel in fundraising itself: Nothing substitutes for charitable gifts, not even ticket purchases for fundraising events. Fundraising events cannot substitute for requesting a donation.

The reality is, buying a ticket to an event is usually about attending the event. If people are not interested in attending the event, they may not buy the ticket. And most fundraising events have no real connection to the cause anyway; the event is just about making money. (Oh, don't even get me started on golf events!)

Also, in my experience, the economy affects fundraising events more than the economy affects charitable giving. Corporations back off of event sponsorship, but still may give a gift. Individuals don't buy tickets to events when times are tough, but these same individuals will still give a donation. The ticket is equated with the event. A donation—with no goods or services exchanged—is about the cause.

So beware of too much focus on fundraising events. Spend more time on charitable gifts and donors. Beware of too much time focused on revenue generation—or overreliance on revenue—which is subject to the whim of customers.

Nothing substitutes for donors. Nothing. Ever. Never.