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STRATEGY
PRESENTS

FUNDRAISING DOWN THE DRAIN

The Leaky Bucket Benchmarking Study of Effective Fundraising 2019

By Ellen Bristol, President
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ABOUT THE AUTHOR

Ellen Bristol, the expert in fundraising effectiveness, launched Bristol Strategy Group in 1995 after a 20-year career selling million-dollar mainframe computer systems. Her initial plan was to consult on sales-force productivity, but then local nonprofits began demanding her support. By 2009, she had focused the firm on nonprofits, with a new mission: to improve the way they manage fundraising for greater impact. She saw how certain disciplines characteristic of high-performing sales organizations could be applied to philanthropic fundraising to improve nonprofit sustainability and impact.

Ellen designed Fundraising the SMART Way™, the firm's flagship methodology for managing fundraising for continuous improvement, in 2010. The next year, the firm launched the Leaky Bucket Assessment for Effective Fundraising, now boasting 1400-plus respondents from nonprofits and NGOs around the world, demonstrating the need for a more strategic approach to fundraising-staff productivity. This year, 2019, the firm published KPI's the SMART Way™, an automated toolkit reporting on productivity data, a platform-neutral add-on to clients' donor-management software.

For more information about Ellen Bristol and Bristol Strategy Group, visit www.bristolstrategygroup.com

Executive Summary

The Leaky Bucket Assessment of Fundraising Effectiveness measures the productivity of the fundraising staff by examining nine basic disciplines impacting their performance, first launched in 2011. This study is based on the 1373 responses we had received by the time of publication in June 2019. Periodic rollups of the data have shown consistently undesirable results in all nine areas.

There is a great deal of research published every year about fundraising in the United States. While it's extremely useful to have all this research, the bulk of it tends to focus on donor behavior – when donors give, how much and which mechanisms. That's fine; it's classic market research, and fundraising organizations need it. However, virtually none of it examines the behavior and skills of the people raising the money. Are they doing their jobs the way we want them to? Is the organization providing the resources necessary for them to do their best work? Our sector has failed so far to examine the dynamics of the fundraising team itself, whether that team is made up of staff employees, contractors or volunteers.

That's what we designed the Leaky Bucket Assessment of Fundraising Effectiveness to do. It evaluates nine practices, all of which are standard operating procedure in high-performing corporate sales organizations. The findings of the Leaky Bucket provide much-needed insight into reasons why so many nonprofits struggle to fund their missions and operations.

Yes, there is a profound difference between nonprofits and for-profits, when it comes to generating income. For for-profits, money itself is a viable method of measuring success, while for nonprofits, impact is the measure of success. Yet money is the enabler of impact. Remember the cliché: no money, no mission.

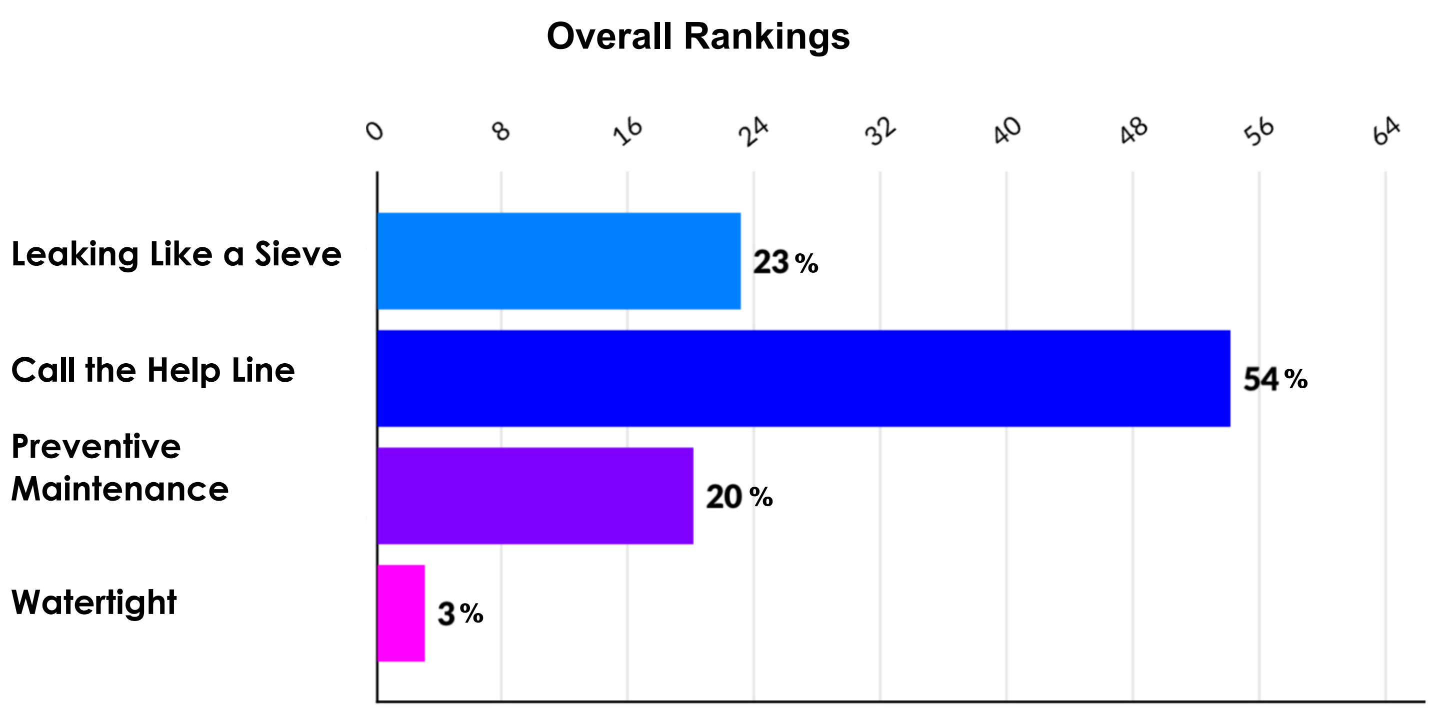
Bristol Strategy's mission is to empower nonprofits and NGO's to achieve desired impact with greater ease. Our data suggests the sector has a long way to go – but there are ways to solve the problem and achieve impact.

SECTION I:

Why Leaky Bucket Data Is Important

In this section we review the overall impact of the Leaky Bucket scores, with three key recommendation for senior leadership, including founders, the governing board, and the CEO. In Section II, we review the data for each statement in the assessment.

The Leaky Bucket data has been consistent ever since the first roll-up, when we had only 70 responses. Today, with 1373 responses, the distribution of scores looks pretty much the same:



Only three percent of respondents scored their organizations at the highest level of productivity, Watertight, while 77 percent scored below the midpoint.

In other words, most respondents score somewhere between a D+ and a C- if we were using letter grades.

The effects are easy to describe:

- Fundraising is a 'shot in the dark,' an afterthought, something nobody can control.
- Nonprofits develop a mentality of scarcity, since there's never enough money to go around.
- Tenure of fundraising professionals is shockingly short – only about 16 months – and the costs of replacement, including costs of lost opportunity, are enormous.
- The board gets frustrated and demands more fundraising events, fires the development director or even de-funds the position.
- Donor retention is depressingly low, averaging about 50%, and often much lower.

> **"We propose three strong recommendations, all of which affect the way we manage fundraising, NOT the way we do it."**

In addition to the Leaky Bucket data, we have conducted hundreds of informal interviews with our clients and other respondents. Combining these unstructured insights with data from the Leaky Bucket study, we propose three strong recommendations, all of which affect the way we manage fundraising, not the way we do it.

Recommendation #1:
People need the right tools & resources to do their jobs well.

The Leaky Bucket data suggests that few nonprofits provide their fundraising teams with tools and resources such as these:

- Documented ideal-funder profiles including funder motivations, so development officers can figure out which prospects justify the investment of more time and effort.
- Documented success targets (how much, how many, how often) for funder acquisition, retention and upgrading, so development officers know what's expected of them.
- Methods to measure and manage the major-opportunity pipeline regardless of the source of income (philanthropic gifts, corporate sponsorships, even major grants), so leadership can evaluate progress and correct course where needed.
- Strategic methods for handling the situation when fundraising results fall below desired results, to avoid tactical frenzies and the indiscriminate use of ever-more fundraising events.

While an increasing number of nonprofits avail themselves of technology for supporting fundraising, many of those lack the basic human disciplines described here. Decades of research in the field of organizational development show us that those who understand what's expected of them at work perform far better than those who do not.

Once the right human processes are in place, the fundraising team is ready to go. They understand what's expected of them, which donors to pursue and which to obtain through less costly means, and when to anticipate a slow-down in the gift process. They use their technology solutions with confidence. Best of all they know if they are on task and on target, and what to do if they're not.

Recommendation #2:
Rigorous management practices produce consistently desirable results.

The job of nonprofit leadership is to develop a vision of a more desirable future by solving the problems of today. Happily, the nonprofit sector enjoys such visionary leadership. Yet even with inspired leadership too many nonprofits founder, struggle, and even go under. Leadership alone won't make a nonprofit perform well.

LEADERSHIP VS MANAGEMENT

Great leadership requires equally great management to achieve, sustain and enhance desired impact. It's great management that gets the job done, makes the desired impact, persuades staff and volunteers to do their work productively and with enthusiasm. Great management is the secret weapon of the best-performing nonprofits (and for-profits as well). Since so many nonprofits are too small to afford layers of management personnel, let's focus on management practices instead. These are within the grasp of virtually every nonprofit, even the smallest. Rigorous management practices do two things simultaneously:

First, they lay out the organization's desired results clearly: how many new funders acquired, retained, upgraded; how many funding prospects meet the ideal-funder profile; how often we need to identify, gain rapport with, and bring funders to the point of soliciting a donation. Rigorous management practices establish a framework or context for doing the job effectively.

Second, they monitor performance. We can check performance against desired results for the year, quarter, month, even the week. We can see if we're on target, ahead of or below it. We can review performance, figure out what we'd like to improve, and work on it strategically. If we see we are veering off track, we can correct our course. We're no longer working in the dark, just hoping to get by, or praying for divine intervention.

Recommendation #3:
Great leadership and great management empower people to do their best work.

"Nearly two-thirds of charities have annual budgets of less than $1 million, which makes them like small businesses in terms of spending and revenue. Nonprofits face many of the same challenges as their commercial counterparts. They are under-capitalized, lack reserves to withstand a crisis or act on a special opportunity, and struggle to stay afloat from one pay period to the next."[1]

Nonprofits fill a need that can't, won't, or shouldn't be filled by government or the corporate sector. If anything, the need for the services of nonprofits is likely to grow dramatically along with the international refugee crisis, the consequences of climate change, and the rise in zoonotic diseases. Nonprofit organizations can, and must, change the world.

Therefore, it is urgent if not imperative for the nonprofit sector to stop and think about strategic ways to improve their income-generating performance. The place to start is at the top, embracing the tenets of great management and further enhancing great leadership.

[1] David King, https://givingusa.org/5-ways-small-nonprofits-can-improve-financial-health/, January 23, 2019.

SECTION II:

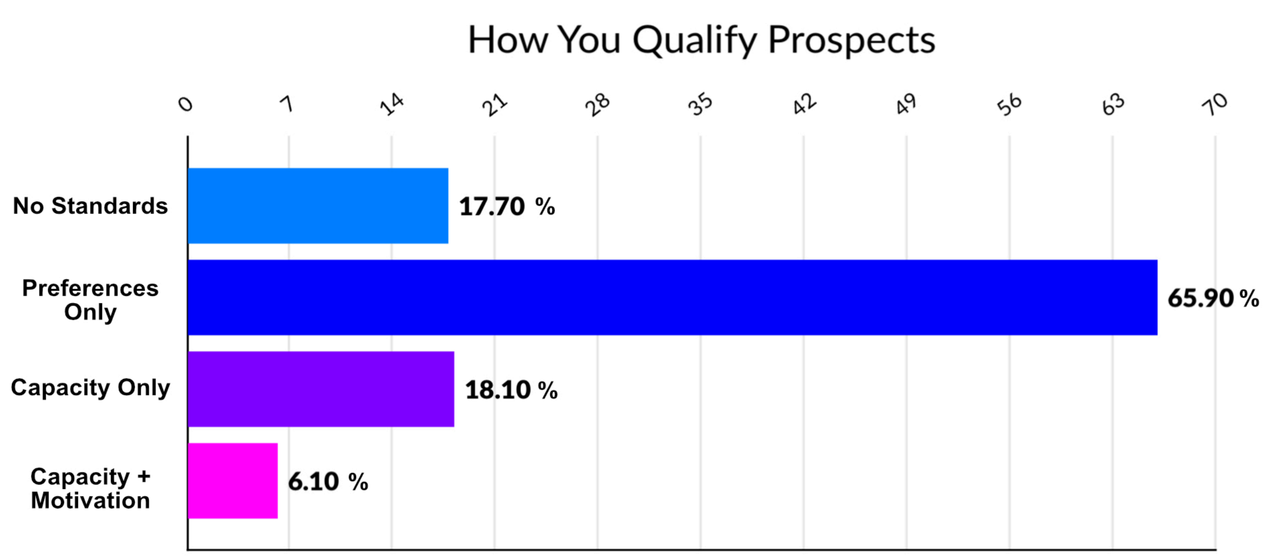
The 9 Leaky Bucket Statements

In this section, we present collated data for each of the nine Leaky Bucket statements. Each statement embodies a fundraising-management principle whose adoption can and will make a positive impact on the predictability and consistency of income generation for your nonprofit.

Statement One: *Practices for Qualifying Prospective Funders*

A whopping **84** percent of respondents lack documented criteria for prospect identification and selection. Thus, the development team is at a loss when attempting to qualify prospective funders. Which ones are going to be worth the investment of their time?

When fundraising staff lack ideal-funder profiles, we set them up to fail, to waste unrecoverable time and energy running after prospects who lack the motivation to give, the capacity to give, or both. Without such guidelines, your development team spends its time shooting in the dark.



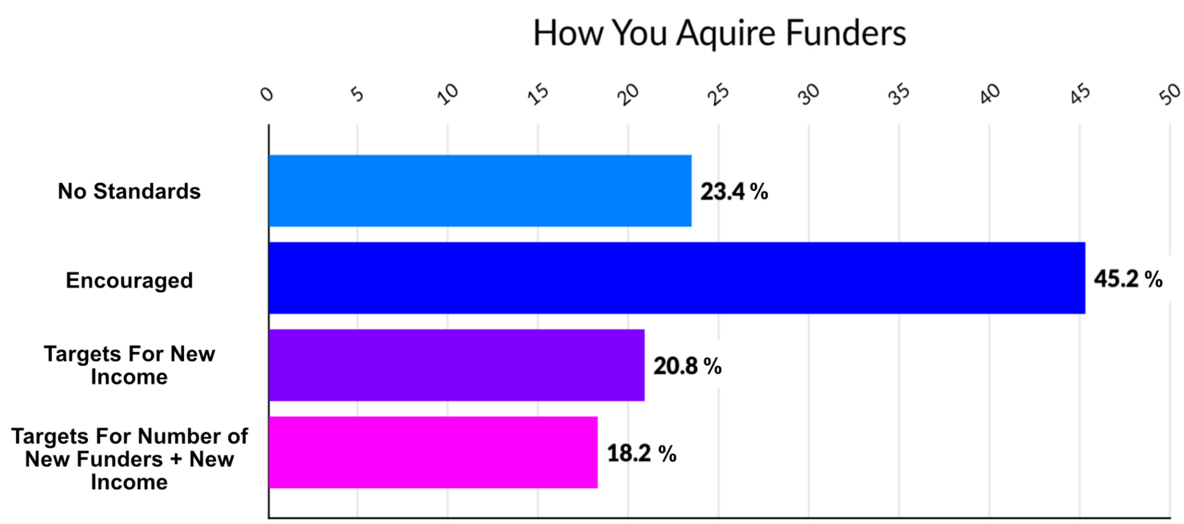
Development officers lacking qualifying criteria may invest costly hours in prospects who lack either the motivation or the capacity to justify such investment of time and effort. When a development officer invests five or ten hours to secure a $500 gift, your organization will lose money on that gift.

Of those organizations who use any selection criteria at all, most of them (18 percent) only look at wealth capacity. Wealth simply does not correlate with giving motivations.

Great Management Practice: Develop and document profiles for the ideal major donor, major corporate sponsor, and even major grant-maker. Hold your fundraising team accountable when or if they pursue major prospects who fail to match the profile; they are wasting their time and your money.

Statement Two: *Practices for Funder Acquisition*

It's impossible to achieve significant growth without adding funding sources every year, replacing those lost through attrition while expanding the total funding base. Yet 68% of our respondents have no standards or metrics for number of funders acquired. Combine this lack with the scarcity of qualifying criteria, and it's no wonder so many nonprofits struggle to fund their operations adequately.



Research conducted by the Gallup Organization[2] shows a powerful correlation between a team's ability to perform well, and the extent to which that team's expectations are made clear. This observation applies equally well to Statement #2, about acquiring funders, Statement #3, regarding funder retention, and Statement #4, regarding upgrading funders. Leaky Bucket data shows a significant lack of clear expectations for all three of these disciplines.

Great Management Practice: Establish and document a target for number of new funding sources to acquire per year. Keep track of your progress. If you're not sure how much the target should be, make an educated guess. It can take a year or more before you get really good at coming up with accurate targets.

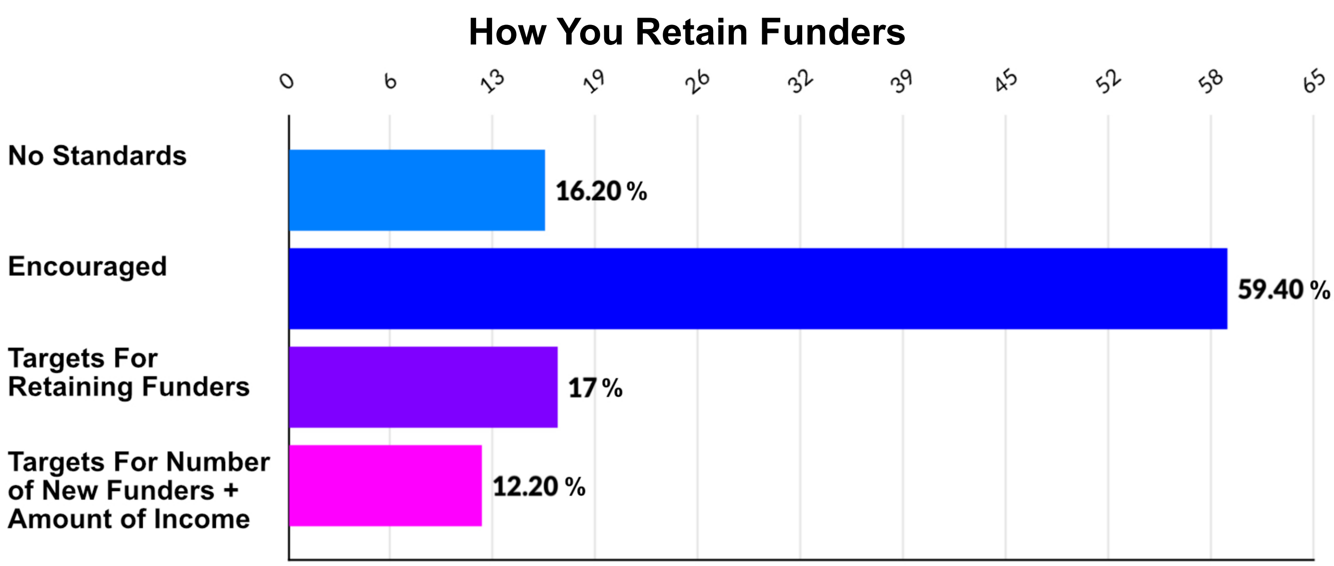
[2] First, Break All the Rules, Gallup Press, May 2016. (Pretty much entire book)

Statement Three:

Practices for Retaining Current Funders

Funder retention is notoriously poor in the nonprofit sector. The Fundraising Effectiveness Project, first launched November 2006, has shown undesirable levels of retention every year since, with many years in the negative numbers.

The 2017 report shows that for every 100 donors gained, 99 were lost through attrition. "Over the last 10 years, donor and gift or dollar retention rates have consistently been weak -- averaging below 50 percent." This is particularly disturbing since the FEP[3] and Giving USA reported record levels of giving, up to $350 billion, from 2015 to 2017.



One of the many negative consequences of low funder retention rates is the amount of time it takes to reach the break-even point every year. As retention rates decline, it takes longer and longer to reach break-even, so the development team is under constant pressure simply to reach "neutral."

Great Management Practice: Assign specific retention targets to the development team. Such targets are necessary for every major income stream, including individual and major donors, corporate sponsors, and even grant-making institutions, to the extent possible. If you want to avoid a funding crisis, work on retention rates.

[3] 2017 Fundraising Effectiveness Survey Report, page 2.

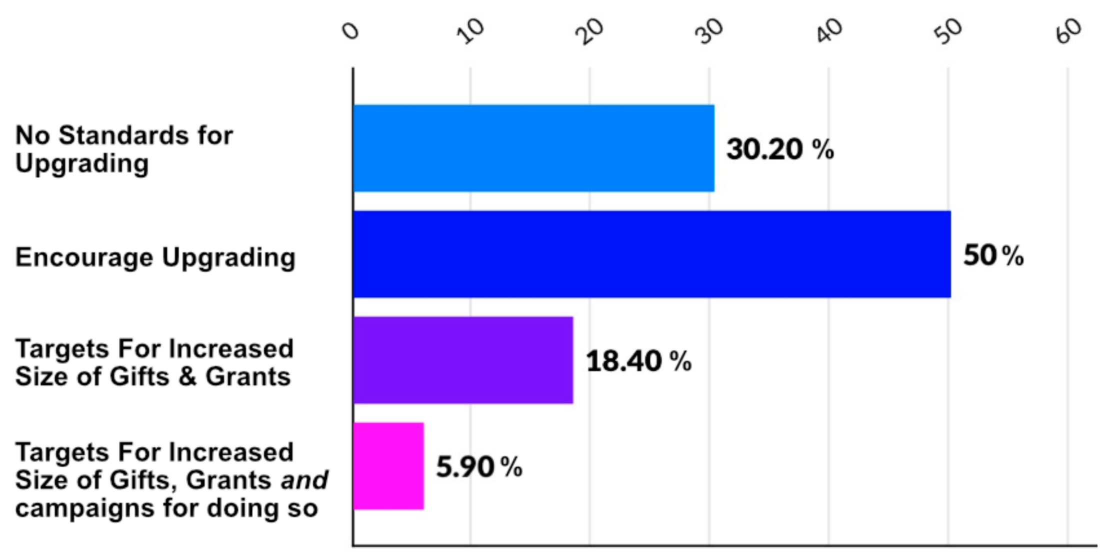
Statement Four:

Practices for Upgrading Funders

To add insult to injury, respondents with viable practices for upgrading funders are few and far between. About 80 percent lack any standards, practices or targets, which is not surprising if you're not retaining them in the first place.

If we reach break-even faster by simply retaining funders, we could reach it even sooner by upgrading at least a proportion of funders to a higher level of giving, increase the pool of available money along the way. Cash reserves, anyone?

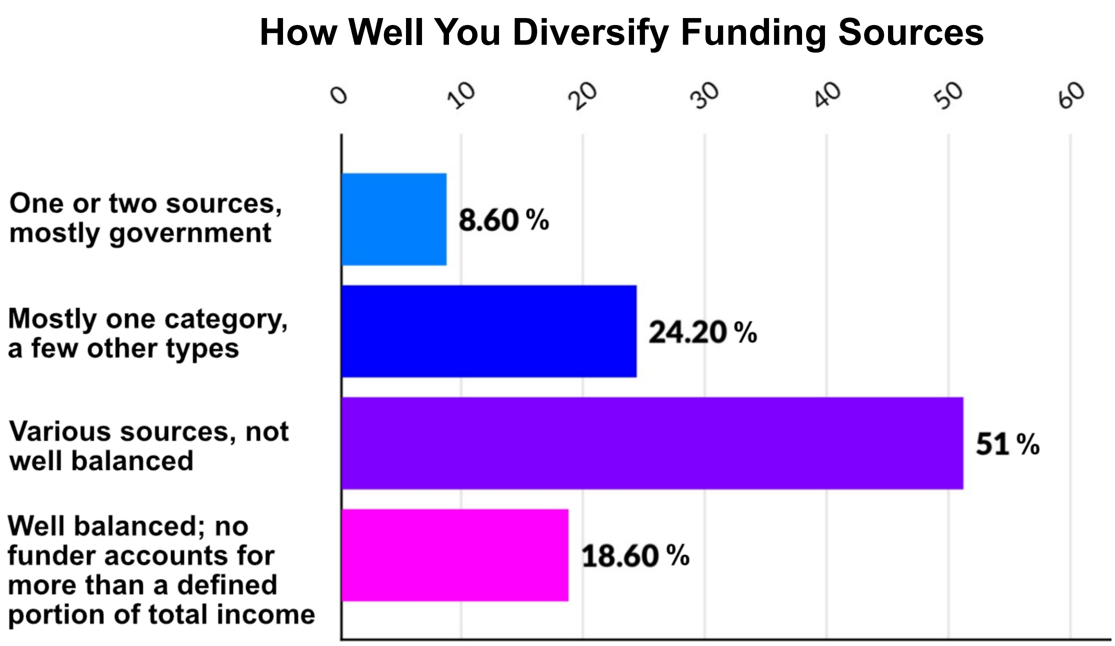
How Well You Diversify Funding Sources



Great Management Practice: Assign targets for upgrading a proportion or number of current funders to higher levels of giving. Provide appropriate marketing collateral, campaigns, programs, and other "triggers" to make the development officer's job easier.

Statement Five: *Practices for Diversifying Your Funding Streams*

Funder retention is notoriously poor in the sector. A minority of respondents depend on a single major funder (8.6%), while a relatively sizable proportion (24.2%) rely on a small number of funders. These organizations are financially vulnerable. Should any single funder disappear, the agency might not be able to recover.



Many social-service agencies depend almost entirely on government support, often from a single agency; when the political climate shifts, those organizations are at risk. However, we believe quite a few respondents rely on one or just a few private donors. The risks posed by low levels of diversification cannot be overstated. Once a major source is lost, recovery will be slow or even impossible, meaning a reduction or cessation of client services and a loss of jobs.

> ***"Never have more than 10 percent of your profits stemming from one customer, and 25 percent from one group of customers."***

High-performing sales organizations refer to funding diversification as "customer concentration," the proportion of customers who make up the largest percentage of the firm's revenue and profits. Simply put, this idea means "never have more than 10 percent of your profits stemming from one customer, and 25 percent from one group of customers."[4] Some pundits suggest 8 percent as a more desirable level. Any higher than that, and the business considers itself at significant financial risk.

Except for the largest, most well-established nonprofits, we suspect "funder concentration" rarely comes anywhere near the 10 percent mark.

Great Management Practice: Monitor the level of funding diversification carefully over the life of the organization. Establish a target for "funder concentration." Nonprofits can recover from the loss of a funder providing eight or ten percent of annual income but recovering from a 50- or 60-percent loss is far more difficult, if not impossible.

[4] See https://gatewaycfs.com/bff/avoiding-high-customer-concentration and http://www.sbnonline.com/article/how-business-owners-can-mitigate-the-risk-of-customer-concentration/

Statement Six: *Staffing Levels*

There is a direct correlation between the size of the development shop and the nonprofit's likelihood of reaching its fundraising goals. Fifty-eight percent of our respondents reported no staff or just one person plus the ED. According to the Nonprofit Research Collaborative, the smallest shops are only able to reach their fundraising goal about 39% of the time, while those with larger staffs score as high as 71% of the time.

When the Executive Director oversees fundraising as well as everything else, he or she will have far too much to do, to do it all well.

Many organizations attempt to solve the fundraising challenge by relying on volunteers, typically members of the governing board. We agree that board directors can and should be involved in fundraising to some extent but leaving all fundraising tasks in the hands of volunteers is dangerous as well. It's difficult to fire an under-performing volunteer. The best solution by far is to start building a team of paid employees as soon as possible, and to use volunteer fundraising support judiciously, accompanied by lots of training.

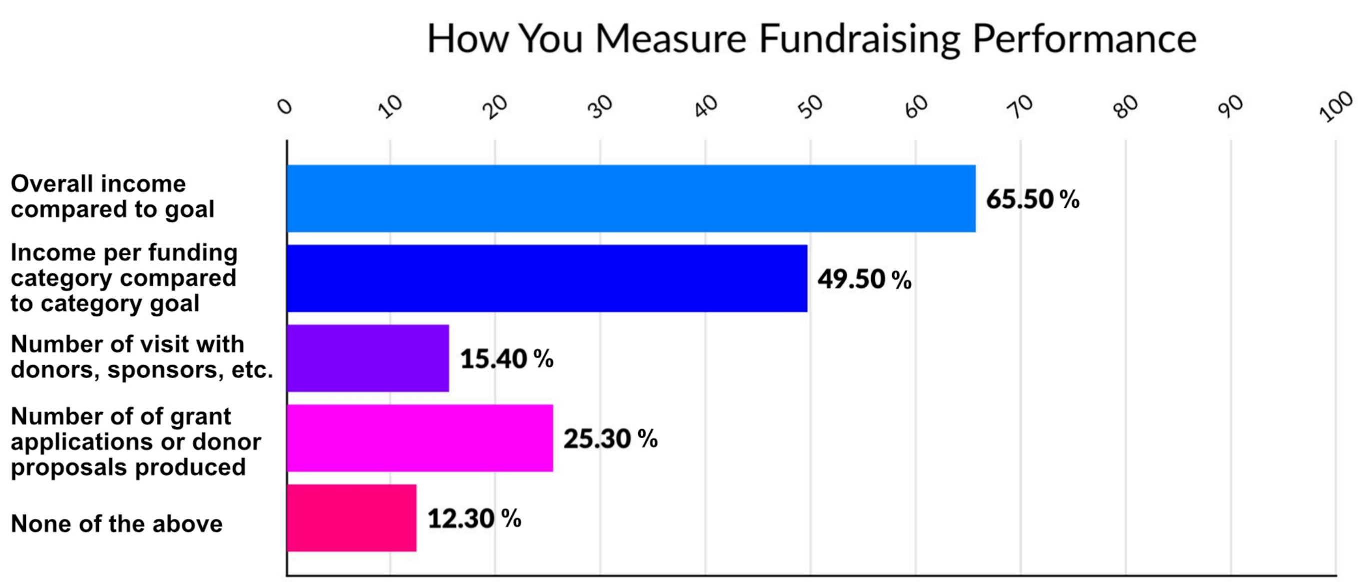
Since raising money is mission-critical, it behooves senior leadership to think long and hard about trying to survive without a well-trained and well-managed fundraising staff.

Great Management Practice: Fundraising is a demanding profession. Invest in qualified fundraising professionals as soon as you possibly can. Provide dedicated staff with clear performance expectations, other forms of management support, and good technology. Small organizations should make every effort to hire a development professional as soon as possible, even before hiring program or administrative staff. Whether your nonprofit is ready for its first development professional, still requires an all-volunteer army, or has a staff of dozens, demand consistent management discipline.

Statement Seven: *How You Measure Fundraising Performance*

Great management drives and monitors desired performance by using metrics. Regrettably, the data show a glaring lack of metrics for fundraising. Of those who measure anything, most measure trailing indicators. Trailing indicators show up after the process is complete, at which point it's too late to fix anything happening earlier in the process. Income received is a trailing indicator, yet of those who measure anything at all, it's the most common. A minority of respondents selected leading indicators. Leading indicators are things happening at the very beginning or middle of the process, insights signaling something is going wrong, or about to go wrong, at a point where it's easier and cheaper to fix things.

While trailing indicators are less "diagnostic," they are still critically important, so we were dismayed to see that only 67 percent of respondents measure overall income compared to goal. Apparently, 33 percent of respondents do not specify an income goal; we had expected to see nearly 100 percent of respondents using that metric, and just under 50 percent measure income per category compared to goal for that category.



Of the leading-indicator options offered in the assesment, a mere 15.4 percent measure the number of visits with donors and prospects. Only 25.3 percent of respondents establish a target for number of grant applications and/or donor proposals produced. If you're not interacting with your major donors, sponsors and prospects, or submitting proposals and applications to them, your likelihood of meeting income targets is compromised. While for-profit companies and their sales teams have plenty of flaws, keeping track of sales income is not one of them.

According to Bill Eckstrom, founder of the EcSell Institute:

> *Prudent decisions in business are usually made as a result of having data, and data is only produced because of inputs. When visiting with sales leaders, we ask them what data they regularly review, and inevitably we hear examples such as:*

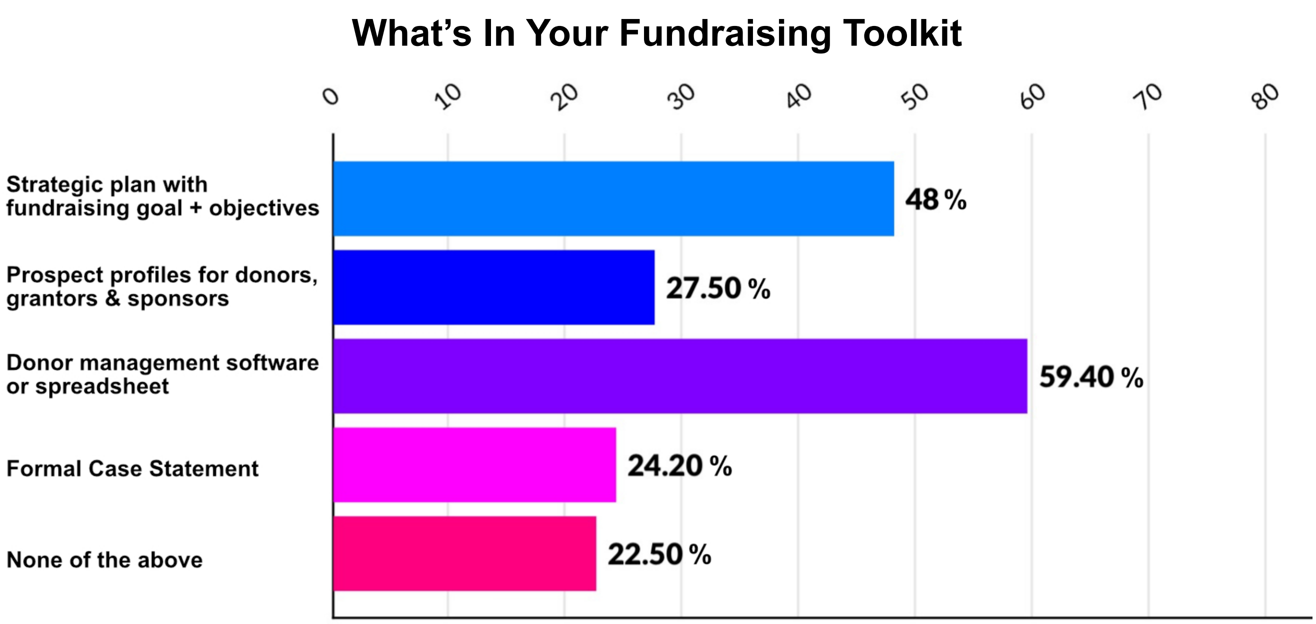
- Pipeline metrics
- Forecasts
- Performance-to-goal by person/division/company/product line
- Profitability reports[5]

Great Management Practice: Establish targets, and track performance against them for overall income. Adopt the sales concept of the opportunity pipeline, a model for tracking the progress of all open (unfulfilled) opportunities for major gifts, major sponsorships and major grants. Establish and assign performance targets for every opportunity stage in your organization's pipeline. Track, report on, analyze and interpret the size, velocity and points of constriction regularly. Use problem-solving tools such as root-cause analysis to make sense out of the data and select improvement initiatives.

[5] Bill Eckstrom, "Coaching Measured: The Vital Sales Performance Metrics," an EcSell Institute White Paper. Eckstrom goes on to suggest additional performance metrics related directly to the sales manager's ability to provide support through training and coaching.

Statement Eight: *What's In Your Fundraising Toolkit*

The fundraising "toolkit" refers to the technology, tools, metrics and methods supporting the development team. Scores for this statement have been consistently low since 2011. Only 48% of respondents say they have a strategic plan, thus 52% do not. About 60% have donor-management software or spreadsheets, thus 40% do not. Only 28% have prospect profiles, meaning 72% do not; and fewer than one quarter (24.2%) lack a formal case for support. So if part of the role of management is to remove obstacles to success, then the nonprofit sector is in trouble.



> *"The lack of tools may also contribute to high turnover rates."*

Besides making a difficult job more difficult, the lack of these tools may also contribute to high turnover rates. Currently, average tenure for first- and second-year officers is only 16 months. The hard costs of replacing fundraising staff are staggering, ranging from a low of 1.2 times to nine times annual salary, depending on the seniority of the person being replaced. Then there are additional costs too difficult to measure: length of time for the new employee to ramp up; discomfort among major donors because of frequent changes in their assigned development officer, and the cost of lost opportunity. How many nonprofits can afford such costs? Wouldn't it make more sense to strive for employee retention and engagement?

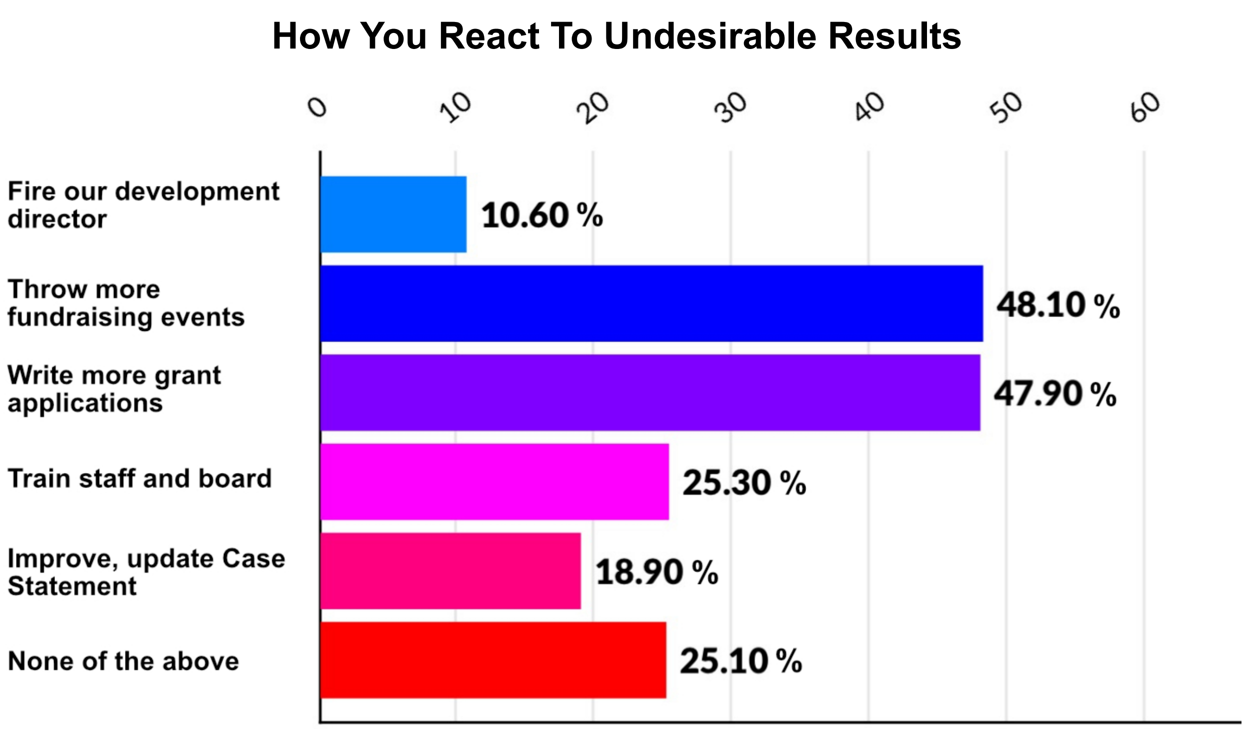
Great Management Practice: Provide your team with the tools they need to do the job right, starting with the strategic plan. Clarify their performance expectations. Provide them with training, coaching, and other types of support to ensure their engagement and enthusiasm for the mission. Avoid over-burdening development staff with extraneous tasks which leads to burnout and discouragement.

Statement Nine: *How You React to Undesirable Results*

The way organizations react to undesirable results is the litmus test of leadership and management. This Leaky Bucket Statement reveals a serious shortcoming in nonprofit management. The percentages have not changed materially since 2011.

Effective leaders and managers welcome undesirable results, using them to discover needed improvements and innovations. The sooner they can pinpoint shortcomings in each process, the sooner they can repair it, and at a lower price in dollars, staff engagement, donor engagement and general hassle.

The discipline of performance management has been in consistent use in the for-profit sector for more than sixty years. It has proven its merits many times over. So why are nonprofits failing to rely on these proven practices for improving fundraising performance?



Great Management Practice: Embrace the brutal facts. When fundraising results fall below desired levels, seek out the underlying reasons, the root causes, that produced those results. There is every likelihood the root cause will lie far "upstream," at a point in the process where shortfalls or other problems can be avoided at much lower costs in time, money, and engagement.

FINAL REMARKS

While only a few for-profit businesses are truly great, the majority are mediocre or merely good. The same is true for the nonprofit sector. In both sectors, those who achieve greatness rely on disciplines like the ones we have cited throughout this study. In the nonprofit sector, the need for disciplines of greatness is even more pronounced in the development shop, than it is in the sales forces of for-profit businesses. After all, raising money for charity is far more complicated than making sales in the commercial sector.

Therefore, when leadership and management allow undesirable fundraising results to pass without much notice, they are on the path to mediocrity. When they fail to provide their development staff with effective qualifying criteria, performance expectations for acquiring, retaining, or upgrading funding sources, they set up their development staff to fail. When they don't establish effective performance indicators, report on them regularly, and learn how to interpret the data, they remain mediocre.

To become a great nonprofit organization means facing unpleasant, sometimes painful truths. Some donors will abandon you. Some fundraising campaigns will fail. Some development officers simply will not perform well. Sometimes social and economic needs outstrip available resources.

It takes fortitude and humility to face these facts and address them to the extent possible. Adopting a disciplined approach to performance, and tracking the data to demonstrate it, the hallmark of greatness.

- ***Great management costs little.***
- ***Mediocre management costs a lot.***
- ***Bad management destroys organizations.***

ACKNOWLEDGMENTS

My first debt of gratitude must go to the 1,373 intrepid souls who have so far completed the Leaky Bucket Assessment for Effective Fundraising, and to the hundreds of them who have asked us to provide individual and team reviews of their results. We have learned so much from you of great significance to your peers, for the betterment of the sector.

How my husband, the estimable athlete and grandpa ***Mike Perillard***, has put up with me for so long is a mystery, but thanks to him I've been able to focus on this work for the past twenty-four years and more to come.

Bill TeDesco, founder and CEO of [DonorSearch], has been a tireless advocate and supporter of my work for many years, and generously sponsored the production of this study.

Pam Stein, president of Clientize.com, helped me turn my messy, unsophisticated ideas about a survey on fundraising productivity into a sophisticated reality. Until her retirement, Pam specialized in the development of market research studies, customer satisfaction surveys, and related database applications. She is not only an expert in this field but has also become one of my most trusted friends and advisors.

Josh Shapiro and his excellent team at SurveyWx have taken over the management of the Leaky Bucket Assessment, and we will soon be able to offer even more sophisticated analysis and interpretation of respondent results.

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