

Dinosaur Development

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Is your Development Shop a dinosaur? If that's the case, you are losing money, you are losing constituents, and you are losing "mindshare."

What do I mean by dinosaur? Just this: Are you totally reliant on pre-Internet strategies and methods for raising money? Then watch out. Every for-profit business is waking up to the fact that if it has not made the Internet a key component of the strategic plan, then extinction is a real possibility.

The competition is not as cutthroat in the fundraising business—except in Planned Giving, which I will discuss later—but if you are "blind" when it comes to the Internet, then you should be prepared to be "blindsided" in some very unpleasant ways.

New Rules, New Game

The Internet is becoming so pervasive, and so important, that leaders of institutions large and small are waking up to the realization that they must re-think their whole gameplan or watch themselves become "dinosaurs" almost overnight. And we know what happened to the dinosaurs.

In Larry Downes and Chunka Mui's book, *Unleashing the Killer App*, the authors preach a new gospel that turns corporate planning on its head. They argue that the Internet itself is a "killer app," and that it is transforming the very environment in which buyers and sellers interact:

In industries as varied as banking, insurance and utilities, competitive advantage is being wiped out as new, sometimes bizarre, competitors quickly produce new value chains that use digital technology to alter the equation radically.

(Unleashing the Killer App, Harvard Business School Press, 1998)

The revolution that is affecting commerce will also change the model for fundraising. As more and

more people use the Internet to make purchases and gather information, so will they also use the net to make donations. Are you ready to receive them?

They will also expect to be able to learn a great deal about your organization through its web site. Is your "story" online?

Further, they will want to interact with you through your web site. Are you prepared to respond?

In some cases, they may want to purchase goods or services through your site. Are you fully geared up for e-commerce?

Losing, Losing, Losing

If the answer to most of these questions is "no," then you are already losing money, losing constituents, and losing mindshare. Here's how.

■ *Losing Money:* One day in the not-too-distant future, your constituents will be as comfortable giving you an e-donation as they would writing you a check. Already, a goodly amount of credit card donations and pledges are being made online, and the numbers look pretty good. The Jewish National Fund raised \$100,000 online in 1999; World Vision raised \$550,000; the Red Cross received an amazing \$2,760,000 online last year. Even the Salvation Army, which only began accepting gifts in October, has experienced a steady \$50,000 per month, with nothing more than a "donate" button on its web site. (Chronicle of Philanthropy, June 15, 2000)

If you are in a highly competitive field, like disaster relief or environmental activism, you may already

have lost donations to organizations with a better Web presence. And no matter what your field of service, in the next five years, when high bandwidth and net-on-TV comes to most American Homes, you may lose untold amounts if your prospects cannot "click here to donate."

Imagine for a moment that your institution was so "old-fashioned" that you did not have a phone system.

■ *Losing Constituents:* Imagine for a moment that your institution was so "old-fashioned" that you did not have a phone system. That there was no way for anyone to call you to ask a question, share a concern, or respond to your mailings. Do you think that this might have an affect on your prospect base? Today, if you don't have easy ways for your constituents to reach you through the Internet, you are losing friends at a rapid rate--especially new friends and young friends.

The same issue of the Chronicle, cited above, notes that a huge percentage of online donors are new donors. For example, 97% of the \$130,000 that Mercy Corps International garnered online in 1999 came from new donors. World Vision found that 68% of its online donors in 1999 were new donors, and that most of the remaining 38% had donated for the first time in the prior year. I don't need to tell Development professionals and non-profit CEOs that new donors are the lifeblood of an organization, and the lifetime potential of these new constituents can be quite substantial—do I?

As for young donors, here is a clue. Taken from the Library World. At the University of Pennsylvania Library, where I am employed, we are working very hard to bring our entire 5,000,000 volume collection online. That means electronically cataloging or re-cataloging all of our books and journals, even ones that have been on the shelves for 200 years. The last time I checked, we had about 90% of our items online. Not bad. The other 10% are easily accessible in our now-much-smaller card catalog. Can't find a book online? Please check the card catalog, we tell every student.

But for undergraduate students, if it doesn't exist online, it doesn't exist. They sit at the computer and do their initial research, and if a resource doesn't appear, they assume it isn't on our shelves. They will do this even when the card catalog is ten feet away, and when the book they want is just one floor up.

The migration of the young to the Internet is only going to become more pronounced as technology improves. At Mount St. Mary College in New York, all 2,000 students have the futuristic benefit of having a fully-connected "wireless" campus. Utilizing the latest technology, students can access the Internet from their laptops anywhere, even under a tree or in the parking lot. Here is what the New York Times has to say about the cultural change that has taken place as a result:

[Mount St Mary's] ...experience provides a glimpse of a future in which online access is literally everywhere, all the time. Being wirelessly connected, students and professors say, has turned the Internet into a fluid and almost invisible part of their day. They have developed an automatic reflex to go to the Web for information, no matter where they are. ("Unplugged on Campus, but Always Connected," by Lisa Guernsey, New York Times, April 20, 2000)

Guess what? These people are your future donors. If you are not on the web, or if you have a primitive web site—you don't exist!

■ *Losing Mindshare:* Recently the Director of the Penn Library and I met with the CEO of a "Fortune 500" company. We had asked for an introductory visit and expected it to last 15 minutes. Instead it lasted an hour and a half! The reason: the two CEOs got into a very stimulating conversation about "managing technology." Not only did we leave with some new ideas, and a new prospect, we left with a new piece of his "mindshare." That is, we had made the impression that we were a sophisticated player in the networked world, and therefore "relevant" to his broader interests.

Increasingly, the very top prospects in the corporate and foundation world are acquiring a "wired" mentality. They see the revolutionary potential of the Internet, and realize that it will transform every major institution. If you are not a "player," If you are not "with it" in this area, then there are some very important people who will dismiss you and your institution.

These people are your future donors. If you are not on the web, or if you have a primitive web site—you don't exist!

Furthermore, a lot of money is being made in the high-tech arena. These newly-minted "silicon millionaires" are very hot gift prospects. Given how they have made their money, and what they think about night and day, if you are "primitive" in your approach to using the

Internet, they will lose respect for your institution. And they won't think twice about donating to another institution which appears to be "cool" and "doing something" with the Internet—even if, for example, it is not their alma mater.

Major Gifts

Whenever I talk Internet-fundraising-talk to a group of battle-hardened development officers, I can see the response in their eyes: "Show me the money."

... I contend that the first place to focus your Internet fundraising is on major gifts. Why? Well, for one thing, because that's where the money is.

OK, this year I received a \$50,000 gift from someone who looked at our Web site and liked what she saw. And that's not the largest Internet-related gift my institution has received. How does \$200,000 sound? How does \$500,000 sound? How about a Challenge Grant package that will total \$2.5 million when we have completed the challenge?

Most people think of e-fundraising as the taking of credit card gifts online. They look to the example of e-commerce, where credit card purchasing is the name of the game. But I contend that the first place to focus your Internet fundraising is on major gifts. **Why? Well, for one thing, because that's where the money is.**

Let's talk turkey about major gifts. We will call anything above \$25,000 a major gift. For most large institutions, major gifts are the lifeblood of the development effort. In general, major gifts account for 80% or more of what is raised on an annual basis. And this 80% may come from only 5% of your donors.

One of the biggest mistakes that fundraisers make is to spend too much time on small gifts. The same thing is happening on the Internet.

I would like to use the term *wired fundraising* to talk about a particular set of development activities that involve the Internet. And here is a mantra to go with this high concept: Major gifts can be raised *for* your Website and *through* your Website.

Many non-profit organizations are beginning to deliver services via the Internet. In the case of libraries, the case is clear enough: the digital library is growing dramatically and is changing the entire framework of what libraries do, and how libraries are used.

Take two more examples: the Red Cross and Amnesty International. The Red Cross site keeps up-to-date information about disasters, both natural and human-made. This means that concerned people can quickly learn "what happened" in a disaster, or that visitors can learn what to do in advance of a disaster, as when hundreds of thousands of people clicked in to learn how to batten down before a recent hurricane. The Amnesty site provides a wealth of information on human rights abuses around the world, and both suggests and enables ways to take action.

These Websites perform an important part of the mission of their parent organization. They provide a valuable public service. Such services are fundable.

Think of whatever organization you represent. Is it performing a needed service through its Website? Then you can raise funds for the site itself.

At my library, we have been quite successful in raising funds 'for' the Web. I have already mentioned the \$50,000 gift for the literary site. I can also cite a \$300,000 gift from an individual to develop our electronic publishing capacity, a \$200,000 grant to create a Shakespeare/English Renaissance teaching site online, a \$25,000 individual gift to put illustrated books online, and a \$500,000 NEH Challenge Grant to endow our electronic publishing program which has already brought in close to \$1 million in new gifts.

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The glamour of the Internet has spilled over into our buildings. We have been able to raise millions of dollars over the past five years for an "Electronic Lookup Center," for three computer labs, for an "Electronic Training Facility," for "Multi-media" seminar rooms and classrooms (connected to the Internet), and even for a complete re-figuring of our acquisitions and cataloging department (all of whose work has been transformed by the Internet.)

That should be enough to stimulate readers' imaginations with regard to fundraising **for** a Website. Let us now turn to fundraising **through** a Website.

Your development Website can be a wonderful place to recognize major donors to your institution. It can also be a wonderful way to involve major donors and major

prospects with your institution in new and compelling ways. Donor recognition can lead to second-time gifts, and inspire new first-time gifts.

The Web allows for new forms of recognition, and new ways to honor or memorialize a special friend or benefactor. There isn't a term for this yet, but we have been calling it Electronic Recognition, or sometimes "cyber-plaquin."

The possibilities in electronic plaquin are only limited by one's imagination, by the wishes of the donor and the self-imposed restraints of the institution. Would the donor like to be pictured with his favorite hunting dog? It can be done. Could a spoken message from the donor be included? Certainly. How about a video clip of the recognition dinner where the donor's extended family is present, and the donor gets up and talks about why she made the gift?

Every seasoned fundraiser knows that *good stewardship is good fundraising*. In fundraising parlance, *stewardship* means those activities that acknowledge and recognize a donor and that report on the use of the gift. A well-thanked and well-recognized donor is an inspiration to other prospective supporters. Furthermore, a happy donor is an excellent prospect for a second gift, and a third—as every major gift officer can attest.

(For more on the use of the Internet in raising major gifts, and for examples of cyber-plaquin, see my online article at <http://www.fund-online.com/musings/cybergift9.html>)

Times are A-Changin'

In considering the value of the Internet for fund raising, it is important to remember that its greatest power is as a communications tool. Too often, I find that non-profit leaders and the press think of the Internet in very myopic terms. Thus, when they ask "how much can be raised through the Internet?" they tend to mean *through online credit card donations.*

... it is foolish to ask how much money the telephone has raised for a non-profit institution and then base the answer on telethons and telemarketing.

The whole "bottom line" attitude ignores the fact that the Internet is a revolutionary technology, just like the telephone once was. If you think about it for about three seconds, it is foolish to ask how much money the telephone has raised for a non-profit institution and

then base the answer on telethons and telemarketing. It makes far more sense to ask: How much money did you raise last year in which you used a telephone as part of the process of cultivation and solicitation? Or conversely, how much money do you think you would lose

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next year if you ripped out your telephone system?

Like the telephone, the Internet gains in power as each new user is added. Personal Internet access is not yet as widespread as the telephone, but its rate of adoption is much more rapid, and both the government and the business community are committed to extending it to the broad citizenry. In fact, with the eventual merger of television and Internet service, and with the introduction of wireless access to cell phones and handheld devices, it is almost inevitable that Internet access devices per household will exceed televisions per household. (If this sounds outlandish, consider the fact that the average U.S. household has more radios than it does people.)

Speaking of revolutionary technology, I have recently been reading the revised and updated version of *The Innovator's Dilemma: How Great Firms Fail By Doing Everything Right* (Harper Business Edition, 2000, by Clayton M. Christensen). This book is considered "must reading" for CEOs who want to understand how their market may be upended by the Internet..

Christensen says that there are two kinds of technological innovations: those that are "sustaining" and those that are "disruptive." Sustaining technologies are ones that allow a company to improve its product, or improve its production processes, or improve some other aspect of doing business. Fortunately for us, most of the innovations brought by the Internet are "sustaining" for Development. The Internet presents us with a wide set of new tools which allow us to improve our craft. Take email. Email extends our ability to communicate with our constituents as well as our colleagues. It saves money and time. It increases our efficiency, and allows for new forms of collaboration. And the Web itself, with its ability to render color graphics, its clickable links, its rapid-delivery forms, its quick handling of credit card gifts—such nice tools!

For the most part, the only fundraising departments that will be "undermined" by electronic communication tools are the ones who fail to adopt them. Even

those who take a leisurely pace—two years instead of six months—will generally do all right. But in some areas, the wolf is already at the door. One of them is Planned Giving.

Planned Giving and Disruptive Technologies:

Disruptive technologies are those that cannot be easily integrated by existing businesses, but allow new entrants to enter the market, and eventually to dominate the market. It is not hard to think of disruptive technologies. The telephone disrupted the telegraph companies. The automobile disrupted the trolley car, passenger train, and buggy business. Online trading is disrupting the brokerage business.

A fundraising function that may be ripe for Internet disruption is Planned Giving. That may sound preposterous, given the highly technical nature of this niche in our profession. As we know, most large planned giving contracts seem to require extensive personal contact, and often involve lawyers, financial advisers, family members, and a fair amount of paper. How could email, the Web, and e-commerce possibly intrude in this private sphere?

First of all, the Internet allows for a certain amount of do-it-yourself planned giving. People who want to explore their planned giving options can now travel to websites that contain the very software that professionals use to calculate deductions and payout amounts. Cybernauts can run their own alternative scenarios. Furthermore, an interested party can research who is giving the best charitable "deal." Is the Lung Society giving 8% for an annuity? Well, a quick visit to another website reveals that the Heart Society is offering 8.5%! This might give a charitable--but benefit-minded--prospect some pause.

So the Internet makes comparison-shopping easier for tax-advantaged gifts. This may be annoying, but is it disruptive? I think the answer is "yes." With the "transparency" of the Internet, a certain percentage of donors will indeed shop around, and Planned Giving Departments that cannot afford to compete on rates and on slick websites may lose substantial dollars.

But it gets worse. Think about the Fidelity Charitable Gift Fund. When they opened a special account for donor-advised funds, they set in motion a series of waves that are rocking traditional fundraising. Donors who are prepared to meet the minimum start-up requirement, (\$10,000) can create their own foundation. They get an immediate tax deduction, and they can manage the grants from their fund by "suggesting"

how the money is paid out. The notion of "suggestion" is just a fig leaf to satisfy the IRS. Fact is, the grants will "automatically" be made to pretty much any 501(c) 3 organization.

Fidelity's Charitable Fund mechanism was only started in 1992. And in eight years it has become one of the top ten non-profit organizations in the U.S., with assets valued at over \$1.7 billion, and having channeled grants to 50,000 non-profits worth a cumulative \$1 billion.

See:

http://www100.charitablegift.org:80/front_page/press/index.shtml

The Fund has mushroomed because donors like the fact that they get a full tax deduction, while retaining de facto control of their money. Plus they get to manage the investment, and see if they can beat the market. This charitable mechanism, sometimes referred to as a "donor-advised-fund" (or DAF) is so attractive that Schwab, Scudder, Vanguard, and a slew of other commercial money-managements firms have opened DAF departments. A survey by The Chronicle of Philanthropy found that the assets in the major commercial accounts had risen by almost 450% between 1995-1999, to a total of \$2.4 billion.

(See "A Run for the Money," by Thomas J. Billitteri, in The Chronicle of Philanthropy, April 20, 2000.)

Is this a threat to "traditional" fundraising? Heck, yes. I can tell you that I watched a \$700,000 potential donation walk out the door of one of the institutions I have worked for, and walk in the door at Fidelity. The potential donors liked the fact that they retained control, liked the fact that they could determine the payout, were convinced that they could beat the non-profit's annual investment return. So they walked. And a few months later I heard of a million dollar gift that took a similar trip.

Now add the Internet to this mixture. Set up mechanisms for managing your accounts online, even using

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them for day-trading. Set up mechanisms for almost instantaneous grant-making capacity. Lower the entry level contribution requirement. Yo, you've got yourself one very cool cyber-foundation to play with.

Will many of the newly wealthy dot.com types like hav-

ing their own cyber-foundation to tinker with at the desktop, the laptop, and the palmtop? Is the sky blue?

Congress has given this development a lot more momentum through passage of the Electronic Signatures Act. Few people realize how radical this legislation is. Here is how Informationweek describes it:

■ The e-Sign Act... .states that an electronic signature is whatever two entities agree it is: The signature may be "an electronic sound, symbol, or process, attached to or logically associated with a contract or other record and executed or adopted by a person with the intent to sign the record."

■ An E-signature can simply be a typed name individuals attach to an email message. Or it can be more sophisticated, such as a digitized image of a signature that's linked to a mathematical algorithm that verifies the authenticity of an online document.... Companies could also let passwords or PINs serve as E-signatures." ("E-Signatures: Ties That Bind," by George V. Hulme in Informationweek, July 3, 2000, page 23)

So get this. A successful day trader who just saw her stock shoot up could use her e-signature to create a "Fidelity" donor-directed charitable account, transfer the stock, and lock in the value of the tax deduction all within one trading day--within an hour! All nice and legal, no paper shuffling required. No need to contact a charity, or a planned giving advisor, to discuss options. Zip zap, you are a Carnegie in the making.

The steps toward this new capability are already being taken. In September, 1999, Fidelity announced the creation of the CyberDonor Center, "a one-stop Web site that helps donors manage all their charitable giving needs via the Internet, from the establishment and management of accounts to extensive educational resources – and online grant-making."

See:

http://www100.charitablegift.org:80/front_page/press/pr092899.shtml

A brand-new entrant to the charitable field, GivingCapital.com, has partnered with the National Philanthropic Trust to establish a DAF with online registration and online management. GivingCapital.com is marketing its sophisticated software for online management to financial institutions and large non-profit organizations. According to a bulletin board posting from Chris Mead, a company representative, "Demand for it has exceeded our expectations and we may have to ask some users to wait till next year." (August 10, 2000)

With the e-signature-empowered Internet, watch how fast commercial entrants and innovative non-profits take advantage of this new-style philanthropy. The fact is, we may never even get to talk with new prospects. They will have done their charitable deals before we even pick up the phone to invite them to lunch. And the threat is not just to planned giving officers, it is a threat to any fundraiser who is trying to raise endowment dollars.

Therefore:

Simply put, the Internet is a new tool for communication, and it will play an increasing role in communicating with donors and potential donors. Therefore, the time to start building your Web strategy is now.

In the short term, the Internet will not replace the mail or the telephone as a method of communication. But in the medium term, it may become the most impor-

I watched a \$700,000 potential donation walk out the door ... and walk in the door at Fidelity.

tant tool you have—other than your charming personality!

Right now, the Web is a great tool for reaching people who use the Internet for business, educational, or personal use. That's a lot of people.

In my humble opinion, Development departments that dawdle will lose this early opportunity to experiment, and to learn, and to develop their staff capacities – while the stakes are not so high. Once the Wolf is at the door, and we discover our house is made of straw... ..well, you get the picture. Dinosaur or Little Piggy, our Goose will be Cooked.

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