MORITZ AND ASSOCIATES, PC
COUNSELORS AT LAW

4570 Hilton Parkway, Suite 203 (719) 260-0272
Colorado Springs, CO 80907 FAX (719) 266-4604

February 12, 2014

10 FUNDING MODELS FOR NONPROFITS

By: Bill Moritz

I recently read an article that discussed different types of funding models that could be used by nonprofit organizations and so I decided that I would assemble my top 10. The only real strategy for most nonprofits seems to be, "let's raise more money this year than we did last year!" For stability, an organization needs to have a predictable source of revenue for at least 70% of their operating costs and a plan to raise the rest of the funds needed for their annual budget. Competition for the charitable dollar is fierce and most successful organization must use more than one or two of the following strategies to raise the money they need.

1. CAUSE CONNECTION:

This fundraising approach focuses on causes that resonate with the existing concerns of large numbers of people by creating a structured way for people to connect with the cause where none existed previously. The job is to build connections to the cause and give them ways to be involved. It is broad based and relies on quantity rather than quality of the donors. You will need a large potential donor base with a connection to the cause that you can begin to communicate with and invite to participate usually in a small way at first. You need to be able to communicate what is compelling is a simple concise way. You will want to find natural avenues to attract and involve a large number of people to your cause. Primary funding technique is direct mail or social media.

2. FRIENDS AND FAMILY:

These nonprofits usually start small based on the vision of the founder and a network that is created by the founders of friends and family. Often these donors can be accumulated based on an event or particular strategic need. Their support is primarily due to the relationship with the people involved first and the cause second. Founders can create a very loyal base by personally communicating with the donors. This is often know as personal support raising and is used by many missionary and youth organizations. Primary funding technique is personal mailings or newsletters, telephone calls and emails.

3. MAJOR DONOR SUPPORT:

This model tries to get a majority of their charitable support from major gifts. Supporters usually are drawn by a deep value connections with either a staff person, the people who benefit from the service or the approach or technique used to help the people. The focus is on developing deep donor relationships with people of means who can make a large gift and connecting them to the cause. These gifts are usually once a year and the approach should be personal solicitation, not mass appeal. These donors are also often looking for a report back on how funds were used and a general ROI on the effectiveness of the program funded by the gift.

4. MEMBERSHIP:

Some organizations lend themselves to membership. People usually belong because they are personally invested in the issues and the issues tend to be important to the members everyday life . Members feel that they get a collective benefit from belonging to the organization. People give to belong or because they belong they give. This usually means providing common benefits to a growing group of people who consider the membership to have value for their lives. Because of the quid pro quo of membership, donor do not usually get a tax deduction for their membership dues or fees but may for additional gifts to the organization. Fundraising often is a value exchange for these organizations so gift premiums are often an important tool for fundraising.

5. THE BIG BENOFACTOR:

These organizations rely on major gifts from a few individuals or foundations or a major grant from the government or another institution. The problems being addressed by the organization can potentially be solved with the direct influx of money or the organization is using a unique and compelling approach to solve problems. This type of funding may be a good way to get started, but since the funding relies so heavily on one source if that source does not come through, then you are out of business. This usually works better for one-time projects in an organization where immediate action fueled by sufficient support has a high probability of a big return. One down side is that these types of gifts usually take a long time to develop and so you will have to be able to keep things going before and in between grants.

6. RESOURCES RECYCLER:

This type of organization collects in-kind donations and then distributes the donated goods to people in need. In kind donations account for most of the revenue of the entity, but they must raise funds for operating costs to stay in business. Though operating costs are a small part of the annual budget, they are critical and so one of the other funding models must be effectively utilized to make it work.

7. POLICY INNOVATOR:

The nonprofit has developed a novel method or approach to solving problems present in government funded programs. They convince the government funders to support these alternatives by presenting their solutions as more effective and less expensive than the existing programs. This funding often occurs based on actual results, not on anticipated or planned results so another form of funding is often necessary to fund the operation until it can prove that the method or approach provides the desired results. Payment is usually received based on actual results and often follows the activity.

8. BUSINESS/SALES ACTIVITIES:

People pay for goods or services that the nonprofit sells to fund the activities of the organization. This will work if the goods or services are directly related to the mission activity. It has not proven to be successful where the earned-income ventures are distinct and separate from the core mission. Nonprofits need to be careful in structuring these activities so that they are not considered unrelated business income for income tax purposes. Also, too much business activity, even if it is related, can cause the organization to lose its public charity status. In many cases setting up another type of entity to operate these activities can be a more effective way of operating.

9. MARKET MAKERS:

These nonprofits generate the majority of their revenues from fees or donations that re directly linked to their activities. They often receive funds from businesses or service agencies to help people use the services from the donating businesses when they could not give directly to the beneficiaries or provide the services directly based on legal or tax restraints.

10. LOCAL AFFILIATES:

These organizations create a national network of locally based operations. They focus on issues that are important to local communities where government can't solve the problem. By consolidating common services they can provide more effectiveness and efficiency for local affiliates. Most of the money for these entities is raised locally and then they local entity partners with the national network.

Most small to medium sized organizations rely heavily on one or two of the strategies presented and disregard the rest. Social problems today are massive in scope and our charitable organizations are tiny by comparison. We must expand the way we think about the funding of nonprofit organizations if we are going to meet the challenges ahead. The list of 10 models is only a beginning. New ways of funding must be created and tried that expand on what we have always known or done. Fundraising needs to be viewed in many cases as a series of experiments looking for evidence of repeatable outcomes. We need to be constantly looking at things in new ways and staying up with social media and trends in society so that what we present in fresh and interesting to the people we want to support our cause. The lines between for profit and nonprofit may become blurred as we explore new ways to change the world.