

## **Finding Your Funding Model**

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# FINDING YOUR FUNDING MODEL

Many nonprofit leaders seek reliable funding but are not sure how best to pursue it. Four guidelines provide a road map for leaders to identify and develop the right funding model for their organization.

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ONPROFIT LEADERS SPEND AN ENORMOUS amount of time on fundraising, but many typically have little idea how to secure the money they will need over the next five years. At the same time, their vision for how the organization's programs will evolve over the next five years is often sharp and clear. The rub is that a well-thought-out approach to raising revenue is essential to sustaining those programs and increasing their impact.

When they're small, nonprofit organizations can often meet their budgets by inspiring a handful of donors, seizing unanticipated funding opportunities, or cobbling together a mixed bag of funding sources. Charismatic leaders are often the key to swaying prospective funders. But as nonprofits get bigger, personal relationships and catch-as-catch-can are rarely enough to sustain large-scale fundraising needs.

In the spring 2007 issue of the *Stanford Social Innovation Review*, we authored "How Nonprofits Get Really Big," based on the Bridgespan Group's research on nonprofits that had been founded since 1970 and reached \$50 million in annual revenue. Only 144 nonprofits (excluding hospitals and universities) made the cut, reflecting the steep challenge of raising funds on a large scale. How those 144 did it defied conventional wisdom: The vast majority got big not by diversifying their funding sources but by raising most of their money from a single type of funding (such as corporations or government) that was a natural match for their mission. Moreover, they created professional organizations tailored to the needs of that type of funding.

In the spring 2009 issue of the *Stanford Social Innovation Review*, we followed up with "Ten Nonprofit Funding Models," which cataloged distinct types of funding strategies that exist among large nonprofits. We identified 10 nonprofit funding models, further confirming that the paths to growth are not idiosyncratic but strategic.

Since the publication of these two articles, Bridgespan and the *Stanford Social Innovation Review* have heard from a great many nonprofit leaders. The concept of the funding model—which we define as *a methodical and institutionalized approach to building a reliable revenue base to support an organization's core programs and services*—clearly struck a chord. But many of the leaders wanted to know what practical guidance we could offer on how to identify and develop the right funding model. It is one thing to read that Susan G. Komen for the Cure is an extraordinarily successful example of the Heartfelt Connector funding model, which draws on a large grassroots individual donor base with a strong emotional tie to the issue. It's quite another to figure out if the Heartfelt Connector is the right funding model for your own organization, and if so, how to pursue it.

This article is a response to those requests for the "how" of funding models—the basic principles through which organizations can understand and investigate their long-range funding options and then develop

a realistic plan for choosing and implementing them. The principles are born out of our research as well as consulting experience with dozens of nonprofit clients that have sought pathways to growth and financial sustainability.

## WHEN TO DEVELOP A FUNDING MODEL

Funding models aren't opportunities to get rich quick. They generally require considerable time and investment to take hold. Many nonprofits just aren't ready to take that plunge. A nonprofit is a good candidate if it is free of immediate financial distress and can focus on developing a long-term funding strategy. Its leadership team must be willing and able to invest in the staff and systems required to support the funding model—and not consumed by efforts to keep the doors open.

Size matters, too. Developing a funding model is generally most helpful for nonprofits that generate at least \$3 million in annual revenues. Because smaller organizations often can get by with idiosyncratic fundraising methods, there's no need to get over-strategic until doing so is necessary. (See "What About Small Organizations?" on opposite page.)

An organization also needs to be clear about what it wants to achieve with a funding model, which requires clarity about its programmatic goals. Does it want to propel rapid growth? Become more financially secure while remaining at roughly the same scale? Expand into a new program area? Each of these objectives is likely to imply a different "right" funding model.

For Rare, an international conservation nonprofit that set out to develop a funding model in 2010, the primary reason for creating a funding model was to fuel growth. The \$12 million organization had developed an effective program model for operating social marketing campaigns to support conservation efforts, which it had tested with encouraging results in numerous countries. Rare's senior management team was ready to scale up the organization's efforts and expand to new countries. We will follow Rare's journey throughout this article.

## THE BENEFITS OF HAVING A FUNDING MODEL

Finding a funding model is indeed a journey—typically neither short nor linear. And there's no guarantee that even the best-fit model will meet the nonprofit's funding aspirations. Why, then, do we advise many organizations to develop a funding model?

Simply put, we believe that having clarity about how a nonprofit will fund its mission is as important as having clarity about how it will deliver its programmatic impact. Almost every nonprofit has

two jobs, each with its own set of external stakeholders. One job is to identify beneficiaries and make a difference for them with programs. But beneficiaries rarely pay the tab—or at least not all of it. Hence the second job: cultivating a distinct set of funders. Building and scaling sustainable financial support is as complicated and important as figuring out the programmatic dimensions.

Identifying and developing a funding model is a long-term investment that requires patience, but we believe it's an investment that's well worth making. Instead of seeing every funding lead as a good lead, take a methodical approach to assess each opportunity. Instead of wondering where and how to invest in development capabilities (and generally investing too little into too many), take an intentional approach on which to build.

In our study of funding models over the last several years, and our work with a wide range of nonprofits, we have established guidelines to help nonprofits identify and develop the funding model that's right for them. First, get a sense of where you are. Second, take inspiration from your peers. Third, weigh revenue potential against associated costs. And fourth, pave the road.

### 1. Get a Sense of Where You Are

With funding models, the way forward starts with a look back. An organization needs to reflect on the relative strengths and weaknesses of its current and historical approach to funding. This knowledge will pave the way for implementing a funding model that builds on those strengths and navigates those weaknesses.

An organization is likely to think it already knows a great deal about how it has raised money, yet there's a danger that some of what it believes is wrong. Consider the experience of an education nonprofit that believed that tours of its diagnostic learning clinics were the key to getting individuals to fund the organization. The group was so convinced of the power of site visits that it spent a disproportionate amount of time arranging tours. And it planned to build more clinics, in part to enhance its ability to raise funds. When the group examined the percentage of total funding that came from donors who were motivated by clinic visits, however, it learned that it was a startlingly low percentage. With this knowledge, the group abandoned its plans to build more clinics and refocused fund development efforts on other areas.

We recommend that organizations in search of a funding model start their research by focusing on three areas: funding sources, funder motivation, and fundraising capabilities.

*Funding sources:* Analyzing historical data can help an organization articulate (to board, staff, and future funders) what the current revenue streams are and how it may want to change them in the future. We suggest going back five years to get a clear picture. Important questions to answer include "What percentage of ongoing costs is covered by renewable funding sources that are very likely to continue for at least the next three to five years?" and "Across how many funders are funding sources spread?" Ideally, an organization garners revenue from three or more funders, thereby giving it a good chance of weathering the loss of one. What percentage of funding is restricted to non-core operations and programs? As a general rule of thumb, we define an organization as being in a relatively strong position if no more than 30 percent of funds are restricted to non-core activities.

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When Rare undertook its analysis, it confirmed that funding was primarily driven by a few wealthy people who were either on the board or closely connected to board members. Securing or failing to secure a gift from any one of these people had the potential to swing Rare's financial picture quite a bit; in fact, the organization's revenues had been choppy for the past few years. Happily, these loyal funders had been consistent supporters for years and did not place significant restrictions on their donations. Most of Rare's other funding, including governments and foundations, had grown in recent years, but remained at relatively modest levels.

*Funder motivation:* Understanding why funders give can help a nonprofit better predict which types of funders are likely to give in the future. The goal is to see if there is a natural funding match between a particular program model and the existing motivations of potential donors. Important questions to answer include "Are the funders motivated by an organization's track record, the specific population it is working with, or the personal relationships with the top leaders?"

Rare's main source of funding was a small group of affluent environmentalists who were impressed by the organization's focus on community-level conservation and its track record of proven environmental outcomes. Although Rare believed there was an opportunity to increase the number of individual donors in the coming years, the leadership team worried that the organization might hit a ceiling with this donor segment.

*Fundraising capabilities:* An organization needs to be honest about what funding sources it can realistically hope to secure and what organizational investments would be necessary in order to do so. Important questions to answer include "Does a single individual (such as the CEO or a board member) generate most of the revenue, or is fundraising more institutionalized?" and "What are the development team's current capabilities?" Different funding sources may require different skill sets. Someone who is successful at cultivating major donors may not be able to write complicated government grant proposals.

When Rare reflected on how it actually secured funding, the leadership team realized that personal relationships with president and CEO Brett Jenks accounted for the vast majority of the organization's funding. Although the development team provided important support, Jenks was often the linchpin in securing funding commitments from individuals.

## 2. Take Inspiration from Your Peers

Savvy nonprofit leaders take insight and inspiration from their peers. Nevertheless, we've seen many nonprofit leaders resist this principle, reasoning that their organization is unique and thus requires a unique funding model. Although creating a never-seen-before funding model is possible, doing so is generally far more difficult and less certain.

What is a peer organization? It may be one that is similar in issue focus (such as disease eradication) and revenue size. But if growth is a goal, the funding approaches used by peers of the nonprofit's *target* size will likely be more informative. Choosing larger peers also helps reveal organizations that are more successful at fundraising.

Because of its growth ambitions, Rare started by examining the largest and best-known international conservation nonprofits, such as Conservation International. Rare then added peer organizations that were comparable in size, such as the African Wildlife Foundation. To round out the group, it included a few well-known environmental organizations that addressed issues beyond conservation, such as the Natural Resources Defense Council (NRDC).

A first pass at identifying a peer group will likely result in a list of familiar organizations, but looking beyond the usual suspects can often bring fresh ideas. These organizations should have sufficient similarities, but also some significant differences. One group to consider is organizations that focus on different issues but cultivate the same type of funding, focus on similar target beneficiaries, or serve a similar geography. Organizations that focus on unique program niches may have fewer natural peers to study. If that is the case, selecting more nontraditional peers can be particularly useful.

For Rare, branching out meant finding organizations that excelled in raising funds from wealthy individuals. In addition to its environmental peers, Rare also included Teach for America and Opportunity International. Both organizations were known to have developed exceptionally strong individual fundraising approaches.

Once the peer group has been selected, it is time to take a close look at each organization's funding model. Two elements are especially important to understand. The first is the overall funding mix. Here the focus is on understanding the individual streams of funding—how many discrete sources the peer organization taps, what those sources are, and what tactics it uses to cultivate them. This knowledge will provide insight into key characteristics of the organization's funding approach—who its main funding decision makers are and how reliable its funding base seems to be.

The second element to understand is the programmatic, financial, and governance differences between your organization and the peer. Adopting a new funding model will undoubtedly require new capabilities—in fundraising, performance measurement, reporting, and sometimes even program design and delivery. But if these new capabilities are too far afield from the organization's current ones, the odds of success may be lower. In researching peers, a nonprofit should identify the key differences with these organizations that may make it hard to follow in their footsteps. These may include organizational structure, age and brand recognition, magnitude of development resources, use of outcome data to demonstrate results, and the size and prominence of the board.

## WHAT ABOUT SMALL ORGANIZATIONS?

Even though pursuing a funding model typically isn't warranted until an organization reaches \$3 million in annual revenues, some of the associated concepts can provide helpful guidance to nonprofits below this size. Practices that are likely to pay off include focusing on types of funding that are natural matches for the nonprofit's work, clarifying who the main decision makers are behind those types of funding, and understanding why those decision makers choose to support the organizations they do. Keeping these practices in mind will make it easier to develop a funding model when the time is right.



Studying any group of peers is likely to turn up a variety of funding activities. But which peers have strong funding models? Here, understanding the three defining characteristics of a funding model—the primary type(s) of funding, the funding decision maker for each major type of funding, and the motivations of those decision makers—is important. (See “Funding Model Characteristics” on right.) It’s helpful to see if those three attributes match up to the 10 nonprofit funding models that we documented in our earlier research and SSIR article. These 10 certainly are not the only models, and a wider array of funding models applies for smaller nonprofits, but they’re a good place to start.

After studying its peers, Rare recognized that some did have clear funding models. For example, Conservation International’s funding approach corresponded to the Big Bettor funding model (where the majority of support comes from a small number of individuals or family foundations). And the African Wildlife Foundation, which manages extensive U.S. Agency for International Development (USAID) contracts, matched the Public Provider funding model (providing services perceived as a core government responsibility). NRDC, with its sophisticated small gifts marketing program, fit the Heartfelt Connector funding model (the same one used by Susan G. Komen for the Cure which relies on donors who have a personal connection to the cause).

It’s also possible that the attributes constitute a new funding model. The test is whether the approach seems sustainable and replicable. If the peer has been pursuing it for two years or less, or if its success seems tied to a unique asset such as a specific leader or unmatched capability, chances are that it’s not a funding model.

Peer funding models, once identified, need to be considered relative to the organization’s own characteristics and capabilities, or ones that might be reasonably acquired. There are three important aspects to consider:

*Fit with the three defining features of a funding model—type of funding, funding decision makers, and their motivations:* For the model’s primary type(s) of funding, would the organization’s own program model allow it to appeal successfully to the relevant funding decision makers, tapping into the same motivations that lay behind their funding of peer organizations? In order to do so, would it need to make any changes to the program model—adjusting existing programs, adding new ones, serving different beneficiaries, or expanding to new geographies? Would it be willing to make those changes?

*Fund development capabilities:* Does the organization have the capabilities required to access the relevant sources of funds? For example, could it cultivate wealthy individual donors, or manage the complexities of government contracting? If not, could it develop those capabilities? And does it have the appetite for doing so?

## FUNDING MODEL CHARACTERISTICS

**1. Type of funding:** The model typically revolves around a single type of funding, such as government or individual, which constitutes the majority of the organization’s revenue and which the organization invests disproportionately in developing. Other smaller sources often play complementary supporting roles, but are not the focus of investment.

**2. Funding decision maker:** Within that principal source of funding, the model focuses on a particular type of decision maker—perhaps a government administrator or a few wealthy individuals.

**3. Funder motivation:** A funding model takes advantage of the natural matches that exist between funder motivations and a nonprofit’s mission and beneficiaries. These motivations range from altruism and collective interest to self-interest.

*Goals:* Will the funding model allow the organization to achieve the goals it set when embarking on this process? For example, can it get the organization to the size it aspires to achieve? (If all peers that use it are smaller than the target, the funding model may not be able to help an organization reach its desired size.)

Two funding models were particularly prevalent in Rare’s peer group: the Public Provider funding model and another model (not one of our 10) that revolved around networks of wealthy individuals. Both clearly warranted further investigation. Two other funding models—Big Bettor and Heartfelt Connector—were also represented in Rare’s peer group, but with less frequency. When a critical look revealed a weaker fit, Rare decided to cross both of these models off its list. “One of the most helpful exercises was eliminating models we didn’t want to pursue,” says Martha Piper, Rare’s senior vice president of strategy and growth.

### 3. Weigh Revenue Potential Against Associated Costs

In assessing a funding model, weighing costs and benefits is essential. The revenue the nonprofit can reasonably expect to access through a given funding model must be sufficient to warrant the program, staff, and systems investments required to develop it. Assessing the revenue potential of a given funding model means digging into its leading types of funding, considering in particular the priority funding sources, the total dollars awarded annually through each of these sources, and the level of competition for those funds.

One of the government funding sources Rare’s management team researched was USAID, having noted that several peer organizations received USAID contract funding. Canvassing the USAID web site gave them a detailed understanding of how much funding had gone to international conservation over the past several years in the countries where Rare had (or was planning to establish) programs. They then interviewed contacts at peer organizations and USAID to gauge how much funding an organization like Rare could reasonably expect to access. USAID emerged as a promising funding source that could help Rare achieve its growth goals.

Rare also sought to better understand the market of wealthy people who give to environmental issues. They referenced the Center on Philanthropy at Indiana University’s “Million Dollar List,” a list of individuals who have made gifts of more than \$1 million. They complemented that data by interviewing contacts at peer organizations. Through this research, Rare identified promising pockets of wealthy individuals living in a handful of urban areas beyond the small geographic area where Rare’s current donors clustered.

Accessing those funds, of course, comes at a cost. When a nonprofit commits to finding a funding model, it commits to change and often significant investments. The level of investment is an important

consideration when deciding which model to pick, not least because things that are harder to do often bring a higher risk of failure.

In the organizations we have worked with, we have seen that investment in four areas may be required: programs, personnel, information technology (IT) systems, and communications.

*Programs:* It may be necessary to refine an existing program to meet the funding source's standards or to introduce an entirely new program or serve a different group of beneficiaries. That said, the strongest organizations tend to be the ones that remain focused on what they do best.

*Personnel:* New capabilities and more staff time are often required to develop and manage the funding associated with a new funding model. A nonprofit may need to create and fill new roles, adjust the way the CEO spends his time, replace existing staff who lack the skills the new funding model demands, add more staff in areas where it is capacity constrained, or provide more training.

*IT systems:* New funding models often place greater demands on IT systems, especially in performance measurement. Existing systems may not be sufficient to support the reporting requirements of new funders or to provide the information needed to manage a growing organization. And stepped-up efforts to cultivate individual donors may require a more robust online donor management system.

*Communications:* Depending on the funding model, top-notch communication materials may be required to support external relations and marketing. Perhaps a more compelling annual report will be important in cultivating individual donors, or more effort will be needed to garner press coverage.

Even with due diligence, there is no guarantee that a funding model will pay off, or, if it does, that it will happen quickly. A nonprofit that has identified state funding as its engine of growth and invested accordingly might still find itself coming to market in a time of state funding cutbacks. Risk assessment must be part of the calculus.

#### 4. Pave the Road

Getting a deep understanding of one's own fundraising approach and history, learning from peers, tallying the likely costs of change and weighing them against expected benefits—are three critical steps on the road to a funding model. And when the time comes to pilot and implement the one or two most promising funding models, a well-developed plan is essential.

Note that we said one or two promising funding models. Moving forward with more than two carries a high risk of overtaxing management and development staff. Succeeding with a funding model hinges on getting really good at cultivating its characteristic funding sources, so splitting staff in too many directions is bound to undermine even the best efforts. Few of the 144 nonprofits identified in "How Nonprofits Get Really Big" built their organizations around more than one funding model. Almost none had more than two.

Then why not just settle on a single funding model right now? The issue is uncertainty. At this stage, it may still be difficult for a nonprofit to know which model will work best, and there could be benefits in trying out the two most promising options to see which has the best prospects.

When pursuing a new funding model one should not relinquish existing funding sources

that don't fit with the new model. These proven secondary sources may go a long way toward complementing the primary funding source, and serve as a stabilizer if the primary source has ups and downs. For example, although Susan G. Komen for the Cure derives the bulk of its revenue from small donations, corporate sponsorships for its breast cancer walks constitute a healthy secondary source. The new sources will become the growth engines for the future, whereas revenues from current sources may remain roughly steady, and thus represent a declining share of the organization's growing funding base.

When it was time for Rare to pick a funding model, its management team remained confident that a funding strategy anchored around public funders had high potential. They also recognized that they did not have the right development staff in place to pursue this model effectively. Accordingly, Rare's leadership team and board decided that over the next three years the organization would strengthen its longtime individual giving strategy while also pursuing the Public Provider funding model. By investing in both its current capabilities and its long-term aspirations, Rare's leadership had a plan to strengthen the organization's short- and long-term outlook.

New funding models typically require two to three years to take hold. A good implementation plan is an invaluable resource as the organization paves its new road. The implementation plan will give staff and board a shared vision of where the organization is heading. It also will establish clear milestones and a learning agenda, making it easier to track progress and make course corrections.

#### CLARITY IS KING

We believe that a strong funding model provides the essential foundation for programmatic success, and the lack of an intentional funding model can undermine the success of even the most brilliant program model. Rare has succeeded in spreading fundraising efforts beyond Jenks by hiring three additional fundraisers. Each covers a specific region of the United States where individuals who support international conservation are clustered, and each has a team of existing major donors and board members providing support.

Rare has also made progress in pursuing public funding. It recently won a \$2 million contract from the German development group Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and is working with U.S.-based government contractor Chemonics on a USAID project. Through its implementation efforts, Rare has learned a great deal, and the management team is adapting its plans accordingly. Most notably, the organization has shifted its public funding focus to cultivate the sources that showed the most promise during the first 12 months of piloting the Public Provider model.

Reflecting on this journey, Jenks noted, "Clarity is king when running a nonprofit. Picking a sensible revenue model was one of the most liberating and clarifying things we've done to date. I empathize with leaders who constantly wonder (or are constantly asked), why not membership, what about online giving, how about government grants, or fee for service? Taking 'maybe' out of the process has already boosted our bottom line." ■

#### TO LEARN MORE

An in-depth guide to developing a funding model, "Finding Your Funding Model: A Practical Approach to Nonprofit Sustainability," is available at [www.bridgespan.org](http://www.bridgespan.org)