

MACKENZIE STRATEGIC

Philanthropy.

INSIGHTS • IDEAS • INNOVATIONS



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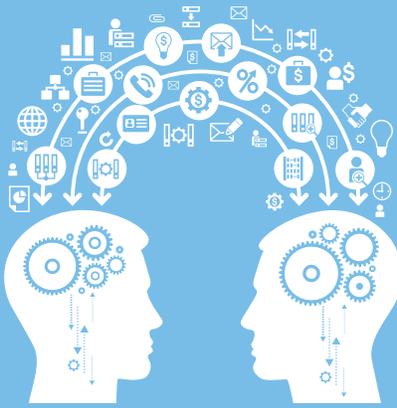
STRAIGHT TALK WITH DONORS ABOUT FUNDRAISING COSTS

Explaining fundraising costs to your organization's key supporters.

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WELCOME TO THE

Inaugural Issue OF

MACKENZIE STRATEGIC

Philanthropy.

We spoke to sector leaders across Canada before launching this publication. These conversations led us straight to the heart of this publication — addressing pragmatic issues that are of pressing concern to those working in senior management positions in Canada’s charitable sector. If you are an Executive Director, President, CEO, CFO, Vice President or other senior officer, this publication is for you.

Each issue will have a theme that addresses the practical needs of Canadian charities. Our first theme - “Fundraising Costs” - is one that is clearly on the mind of sector leaders as they address the major concerns of their key stakeholders including donors, board members, volunteers, media and other constituents. Our aim is to approach each theme or issue from a variety of different perspectives. In this issue, we’ll discuss why fundraising costs should or should not be considered a key metric in the performance measurement of your organization. More practically, we will address how to discuss these issues with some of your immediate stakeholders.

Above all else, **Mackenzie Strategic Philanthropy** is intended to be practical, functional and matter-of-fact. We want you to take these learnings and apply them in your daily conversations. I would greatly appreciate your feedback so we can make future issues of this publication as helpful as possible.

- BRAD OFFMAN

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WHEN DO COSTS MATTER?

“IT DEPENDS”

“There simply are NO reliable guidelines about how much it *should* cost to raise a dollar — no matter what the self-appointed charity watchdogs might tell you.” That’s Mal Warwick talking, after a lifetime spent helping charities all over the world with digital and multi-channel fundraising.

JANET GADESKI



Is Mal Warwick right?

The trouble is, of course, that any fundraiser saying things like that is vulnerable to accusations of self-interest. It's rather like a doctor telling you there should be no limit on how much medical care should cost.

But Mal, like every fundraiser I've ever met, is much more nuanced in his views than critics of the charitable sector might suppose.

"There are circumstances in which it would be embarrassing for an organization to spend more than a dime to raise a dollar — and those in which it would be worthwhile spending two or three dollars to raise a dollar," he continues. *"The only rule of thumb is, 'It depends.'"*

ONE SIZE FITS NO ONE

Imagine Canada and the Association of Fundraising Professionals agree with Mal. Their joint statement issued February 17, 2012 says, "Establishing a fundraising cost ratio is helpful but imperfect because it only measures

a charity's fundraising efficiency and cannot measure that charity's overall efficiency or effectiveness. There is no 'one size fits all' answer as to what an organization's fundraising cost ratio should be."

It is advisable for all charities to take opportunities to explain that fundraising is an investment — not a cost — which requires resources up front.

— **UK INSTITUTE OF FUNDRAISING: CODE OF FUNDRAISING PRACTICE**

(continued on next page)

If cost per dollar raised isn't the yardstick, what is? And just how do we measure the true cost of fundraising? Does revenue from an event end with the gift portion of the ticket, or do we stop with the partial tax receipt for the ticket, or do we track the guest's lifetime support and the new-to-us friends she brings to the next gala? How do you put a cost figure on relationship-building? When donors hear the same message from direct mail, email appeals, newsletters and personal presentations, which outreach channel gets "the credit" that justifies its costs? What is the opportunity cost of using one more dollar for fundraising rather than programs? Or the time spent parsing and reporting on data rather than writing personal thank-you notes?

We don't like to see our donations spent on advertising ... How can we take market share away from the for-profit sector if we're not allowed to market?

— DAN PALLOTTA

As expressed by the leaders interviewed for this newsletter, the focus must be on outcomes. How can we do the most over the long term with the money we raise?

The issue is not that we can't raise a dollar for a penny's worth of effort.

The real *miracle* is that in the midst of stretching every **staff** and **volunteer hour** and every **dollar** of revenue to respond to **growing human need**, we are still committed to **finding time** for this discussion.

Tracking our own mission results, comparing ourselves to peer organizations, sharing new approaches to measurement — these topics are on the agenda whenever fundraisers meet with one another, with supporters, networks and government agencies.

Do we demand to know what marketing firms are spending their money on? Do we demand that they spend a lean 20% on salaries? No, we evaluate them based on the work they accomplish. This is how we should be evaluating charities as well.

— JOEL BENTLEY, PEER GIVING

Even Charity Navigator, once notorious for equating low overhead with organizational worth, now admits that "mission-related results are the very reason charities exist!" Yes, they will incorporate measurements of effectiveness in their overall ratings of charities ... in 2016!

It seems that even for an agency whose entire mission is about measurement rather than eradicating poverty, injustice or disease, it's a huge challenge to measure mission results meaningfully. Its change of outlook demonstrates that charities are finally making a credible case for the supremacy of outcomes and the need for reasonable investment to achieve important goals. It's heartening to see the conversation spreading, and the tide turning on this continent and abroad. ■





Asking a bigger
Question

MARK BLUMBERG

There is no doubt that we live in a society with many needs. A large number of citizens would like more resources deployed to help those in need, improve education and health care, and support most of the other missions that now fall to charities. The debate over fundraising costs, however, is largely a distraction from the central issue: just how should we pay for these vital goods and services?

Currently, governments provide almost **70%** of the charitable sector's revenue. Fundraising accounts for less than 6%. The rest is made up of earned income/business activities and proceeds of investments.



MORE COMPETITION MEANS HIGHER COSTS

Government funding is neither totally sufficient nor equally distributed. That gives rise to tremendous fundraising competition among charities. As pressure grows to raise money, charities find themselves paying more staff or contractors to raise the money once brought in by a shrinking pool of volunteers. It is quite possible that fundraising costs will actually rise over the next few years. Also, we rely increasingly on a group of major donors, some of whom offer gifts with substantial strings attached that often undermine the effectiveness and mission of the charity.

The central issue is not one particular charity's fundraising costs, but how the sector as a whole should be funded. Let's take the example of a charity that raises \$1 million through fundraising. If this charity, for argument's sake, spends \$0.35 to raise a dollar, then its fundraising ratio will generally be acceptable to Canada Revenue Agency.

TRUE COST OF FUNDRAISING

Now let's assume that the million dollars is receipted. That means Canadian taxpayers essentially contribute about \$0.45 through forgone taxes for every dollar raised. When you take into account the charity's cost of fundraising plus the incentives provided by government, you see that the real cost to raise a dollar through fundraising is about \$0.80.

Spending or giving up \$0.80 to raise a dollar is not an efficient way to raise money for charitable missions. By contrast, if taxes were to be raised, the cost of bringing in that extra money through taxation would probably be less than 1%.

So the central problem is not that it costs your charity money to fundraise. It is that fundraising is difficult and very costly for many charities. There are better alternatives to relying so much on fundraising — we could channel more public funds to charities. But the question is whether there is the political will to support long-term government funding for sustainability of the charitable sector.

TRUE COSTS LEAD TO A DIFFERENT QUESTION

As we have seen from recent media coverage, there appears to be a large number of Canadians with offshore accounts. Some of them may not be contributing their fair share to pay for the various benefits that taxes provide in our society. Collecting any taxes owed and providing greater funding to the charitable sector would be a good start.

In the long run, though, if these measures are not adequate, we have a big decision to make. Is it better to spend \$0.80 to raise a dollar (in terms of fundraising costs and government tax benefits), or are higher taxes, which cost little to collect, needed to pay for the important work of the charitable sector? ■

philanthropy by the numbers



Canadians donated
\$10 billion
in 2007

The charitable
sector creates
approximately

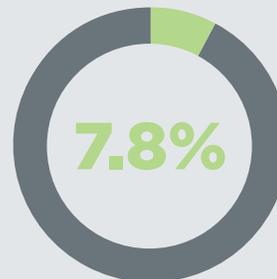


2 million
jobs

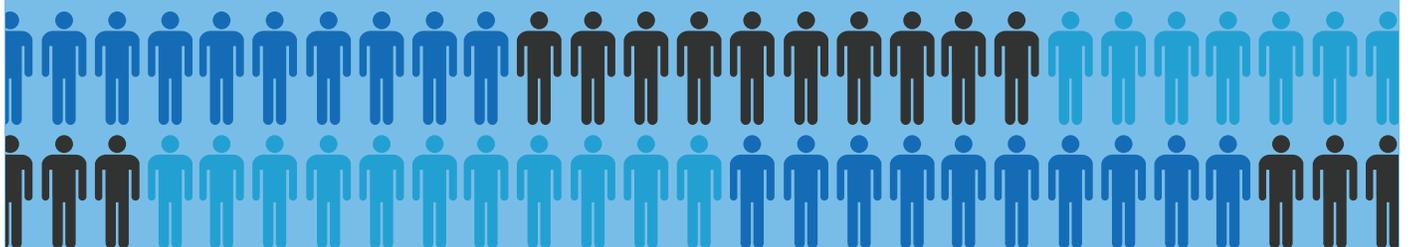
There are **85,000**
registered charities in Canada



The charitable sector
represents



of Canada's
gross domestic
product



12 million volunteers are engaged in the charitable sector

Cut ratio to build mission spending

GREG THOMSON

“What are their fundraising costs?” is a question donors often ask us at Charity Intelligence. In most cases the answer is, “They are fine. Now let’s talk about what really matters in analyzing a charity,” and we move on to discuss how the charity is, or is not, able to illustrate the impact its work has on its clients or on society. However, there are two cases where looking at fundraising costs tells me something important about a charity.

First, there are still charities that do not disclose their fundraising costs or they obscure these costs. Transparency in the charitable sector is becoming more important as donors ask more questions. So, even if the ratio of fundraising costs to donations typically has very little bearing on how I view the charity, I should still be able to see what that ratio is. If I cannot, I wonder why, in this age of obsession with fundraising costs, the information is not available.



“ We view the donation pool as a relatively scarce resource. If one charity pulls from that pool, there is less left for others. ”

Second, there are some charities that still spend astronomical sums of money to raise a dollar. There is talk in the sector today that charities may, in fact, be spending too little money on fundraising — that if everyone just spent more, there would be a greater amount of money flowing into the sector. Unfortunately, I have not seen any data to support this position. In fact, what we have experienced is that charities that spend more in a community or in a particular sector take donations from charities that do not, rather than increasing the overall donation pool.

MORE ACTIVITY WON'T GROW DONATION POOL

What this means is that we view the donation pool as a relatively scarce resource. If one charity pulls from that pool, there is less left for others. In this scenario, it is pretty easy to see what happens when some charities spend significant amounts to raise funds. Unfortunately, others are forced to compete for funding and the overall amount spent on fundraising escalates.

Given this, we believe that all charities, especially those spending significant amounts on their fundraising, should work to reduce this cost as much as possible. This obviously does not mean slashing fundraising costs and hoping to maintain your donations — this cannot happen. It simply means that charities should examine each of their fundraising methods, understand the costs associated, and work both to reduce those costs, if possible, and to shift emphasis towards less expensive methods.

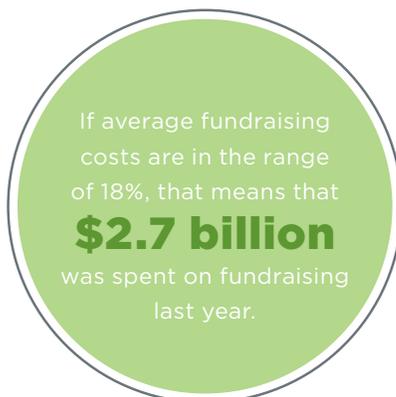
HALF A BILLION MORE FOR MISSION

The total amount given by Canadians last year to Canadian charities was an estimated \$15 billion. (Charity Intelligence calculations, based on \$8 billion tax-receipted revenue plus other fundraising revenues reported on T-3010 forms filed by charities). If average fundraising costs are in the range of 18%, that means that \$2.7 billion was spent on fundraising last year. That is big business. If this ratio were to decrease to 15%, this would add over half a billion dollars to charitable programs. At Charity Intelligence, we believe that this is worth striving for.

Ideally donors will choose charities to support based on their social results — the impact of their work. If charity impact can be better displayed for donors to see, high-impact charities should not need to spend as much to raise a dollar and we will all be better off. ■



Did you know?



Source: Greg Thomson, Charity Intelligence

% OF CANADIANS REPORTING CHARITABLE GIFTS, BY HOUSEHOLD INCOME

LESS THAN \$20K	67.1%
\$20-39,999	80.7%
\$40-59,999	83.4%
\$60-79,999	85.7%
\$80-99,999	89.4%
\$100,000+	88.4%

% OF CANADIANS REPORTING CHARITABLE GIFTS, BY AGE

AGES 15-24	72.7%
AGES 25-34	80.2%
AGES 35-44	89.4%
AGES 45-54	87.8%
AGES 55-64	86.6%
AGES 65+	87.2%

Source: Statistics Canada, Canada Survey of Giving, Volunteering and Participating, 2010



Canada's charities **deserve better**

BRAD OFFMAN

CANADA'S CHARITABLE SECTOR IS PERHAPS OUR GREAT COUNTRY'S MOST VALUABLE RESOURCE. IT PLACES HUMAN DECENCY AND KINDNESS ABOVE ALL ELSE. IT IS NOT SURPRISING, THEN, THAT IT HAS REACTED TO THE RECENT FOCUS ON ITS COST STRUCTURE WITH POLITENESS, DIPLOMACY AND TACT.

The sector has (correctly) pointed out that a charity's fundraising cost ratio might reflect its fundraising efficiency, but may have little correlation to its ability to achieve its mission. The sector has been too willing to tolerate the use of fundraising and administrative costs as the only appropriate metrics, when it knows full well they are not. Impact is really the only thing that truly matters. Charities must take a positive approach to marketing their impact while promoting more appropriate metrics around societal improvement.

TOWARDS A DEEPER ANALYSIS

When my colleagues at Mackenzie Investments analyze companies, they look at a variety of factors before they decide to invest. They ask questions like these:

-  How competent are the management teams?
What about the quality of board governance and oversight?
-  What are their revenue and profit trends? How did they do last year and in the years before that?
-  What do the other numbers look like? What about the balance sheet?
-  Are they diversified?
-  How long have they been in business?
-  What kind of furniture is being manufactured?
What kind of software is being developed?
-  Where are they doing business?

As one senior portfolio manager told me, “If I were looking at a company, I would be looking at the trend of that market and I would be focused on the potential for growth.” The key is that while the numbers are part of the analysis, they are understood in a broader context.

Yet when I asked the same portfolio managers whether they might give to certain women’s shelter charities (see table below), there was no analysis — no focus on profit or efficiency. Their decisions were thoughtful, but based on personal values around philanthropy and volunteerism rather than on quantitative factors.

	Women’s Shelter A	Women’s Shelter B	Women’s Shelter C
Revenue	\$1,000,000	\$1,000,000	\$1,000,000
Fundraising Costs	\$50,000	\$100,000	\$200,000
Administration Costs	\$100,000	\$150,000	\$100,000
Total Costs	\$150,000	\$250,000	\$300,000
“Profit” (Funds left to deliver programs and services)	\$850,000	\$750,000	\$700,000
Cost Efficiency (Profit as a percentage of overall revenue)	85%	75%	70%

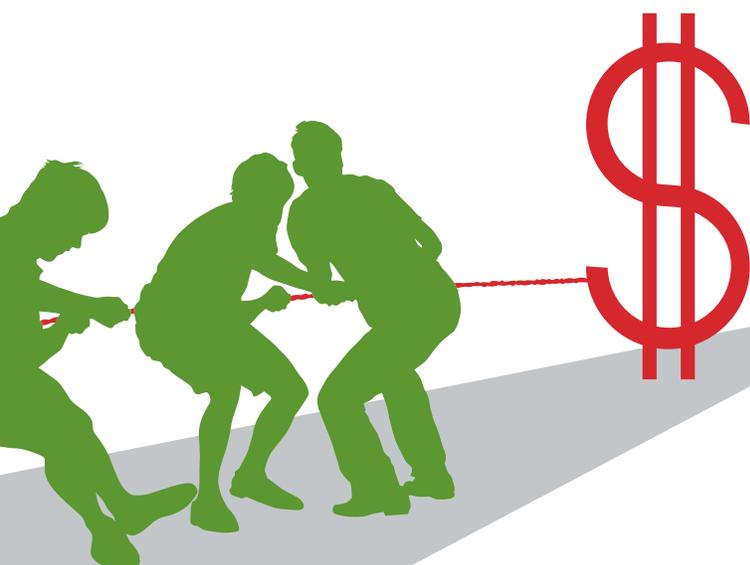
Let’s take a look at three different women’s shelters. As donors and media consumers, we’ve been led to believe that Shelter A is “better” than Shelter B, which in turn is better than Shelter C. But our sophisticated portfolio managers are quite astute even on matters relating to philanthropy. More questions arose when I asked them which shelter would be their preference.

- 🍁 What communities do they serve?
- 🍁 Do they all serve only women or women and children?
- 🍁 How do they help these women acclimatize back into the community and find supportive housing?
- 🍁 Do they provide both short- and long-term support systems?
- 🍁 They also asked other numerical questions, especially around how these numbers trended with previous years

EXAMINE THE MOST IMPORTANT THINGS

The focus on immediate fundraising and administrative costs virtually ignores answers to these important questions. If Shelter C is the only organization serving both women and children, shouldn’t that be important? If Shelter B were the only one serving your community, wouldn’t you choose that one over the others? Perhaps Shelter C wishes to purchase a newer, safer building, potentially increasing its fundraising costs. All these variables speak louder than a narrow focus on fundraising and administrative costs.

The charitable sector does its job proudly and quietly, like your trusted colleague who always gets the job done quickly and properly with no fanfare. Perhaps charities need to respond more vociferously to those who diminish their importance by focusing primarily on fundraising and administration costs. Until then, they will be forced to defend themselves from those who devalue the significance of the entire sector. ■





WHEN BOARDS TALK

FUNDRAISING

JANET GADESKI



The conversational tone is changing in charity boardrooms across Canada. Whether exhorted by sector representatives or galvanized by superficial analysis and sensational reporting, fundraising leaders and board members are speaking out firmly and frankly about the connection between fundraising success and mission achievement.

And they're finding that donors understand.

"The view of cost per dollar raised [CPD] is less myopic," comments Calgary fundraising consultant Ross Marsh. *"More donors are focusing on outcomes: will your fundraising investments drive more money into your mission? There's still a wide gulf. It's the more sophisticated donors who understand fundraising*

costs. But even less aware donors are beginning to learn that it's about outcomes. They're catching up."

REASONABLE DIALOGUE AT THE BOARD TABLE

Ted Garrard, President & CEO of SickKids Foundation, learned that his board of directors was talking frankly about fundraising costs even before he was hired in 2009. And their discussion was, and remains, open and reasonable.

"They want to be comfortable defending it [CPD] to stakeholders, and they want to know where we are positioned compared to others in our sector," he explains. *"The Sick Kids board wants its CPD to be in the mid-range for like organizations."*

Most board members have some business experience. Say things like, "Could you run a \$4 million business without investing in a business plan or resourcing the business?"

— ROSS MARSH, ROSS W. MARSH & ASSOCIATES

But to be meaningful, that comparison must be accurate. “It’s important to compare ourselves with organizations that have to raise a lot of unrestricted money,” Gerrard notes. “That means a lot of expense on mass marketing and events. We wouldn’t compare ourselves to the United Way, for example, where much of their fundraising is done by workplace volunteers in their own offices.”

We must pay decent wages to keep our [donor relations] staff. Otherwise, we will always be training bright young things for their next position somewhere else.

— **TIM MALONEY,**
MERCY SHIPS CANADA

Gerrard uses a three-year rolling average CPD to smooth out some of the bumps caused by acquisition campaigns and newly launched events. His board understands that a new initiative, especially an event, may take three or four years to reach its target Return on Investment (ROI). “But it also generates what we call warm leads, good prospects,” he points out. “You have to track the conversion rate of that as well.”

SET TARGETS, REPORT OUTCOMES

Clear targets and outcomes reporting make board members much more comfortable with fundraising costs, says Halifax consultant Anne (Coyle) Melanson of Bloom Nonprofit Consulting Group.

“I work now as a consultant and have interacted with dozens of boards over the years, where investing in fundraising growth and outcomes is on the agenda,” Melanson observes. “I don’t generally find boards to be resistant to investing in fundraising if there is a sound ROI strategy and a realistic plan that the board has confidence in.”

It is really important for charities to strike the balance between investing appropriately and not appearing to be extravagant.

— **ANNE (COYLE) MELANSON,**
**BLOOM CONSULTING FOR
NONPROFITS**

HEAD AND HEART IN CONFLICT

As with any human trend, intellectual understanding precedes emotional acceptance. The notion that you have to invest money to make money has taken hold in board members’ brains. But many directors still struggle with what Marsh describes as “fundamental squeamishness.” Tim Maloney of Mercy Ships Canada agrees, describing his board as one that simultaneously “wants every possible dollar to go to our projects [and] to raise more money.”

Melanson concurs. Boards, she explains, “don’t want the organization’s reputation to suffer because donors or the general public view them as being irresponsible.” That’s where measurement and reporting can help, provided it takes the long view — the three-year rolling average of CPD that Sick Kids uses, the “warm leads” from new

The notion that you have to
invest money to make money
has taken hold in board members’ brains.

events, or an understanding of donor lifetime value, which Maloney points out can be hard to measure for younger organizations like his.

If mission dollars increase faster than your cost per dollar raised, that’s a grand slam success.

— **ROSS MARSH, ROSS W.
MARSH & ASSOCIATES**

But the most meaningful measurement is impact. Lives changed, diseases understood, illnesses healed — these speak to donors more powerfully than a CPD that is marginally lower than that of the not-quite-similar charity down the street.

The time is right for boards to transform their charities by proclaiming that more money for fundraising, properly used and monitored, means more money for their mission. And they can only do that if their fundraising staff experts give them the outcome measurements to prove it. ■

STRAIGHT TALK WITH DONORS ABOUT FUNDRAISING COSTS



“We train everyone in the organization about the cost per dollar raised so they can speak to donors confidently.”

That’s Ted Garrard of SickKids Foundation talking about how his team — all 150 of them — explains fundraising costs to supporters.

Are you there yet? Probably not, if a random survey of major charity websites is any indication. FAQs for donors cover things like accountability, ethical fundraising, and the organization’s commitment to use contributed funds wisely. But the closest most of them get to discussing costs is the proud statement that they do not pay commissions to fundraisers.

Now these are all good things. But they don’t bespeak a candid acknowledgement that fundraising costs money, let alone a desire to help donors perceive it as an investment in mission achievement. Assuming your board is comfortable with your fundraising strategy and expenditures, how do you take the next step of giving donors the explanations they deserve?

HOW TO SHARE HARD TRUTHS

Let’s look at a charity that has to justify some fairly tough statistics. At first glance, for those who believe charities should be nearly cost-free, the MS Society of Canada has some explaining to do. Its administrative costs of 7.1% plus fundraising costs of 42.2% suggest that roughly \$0.50 of every dollar raised pays for internal expenses, not programs.

Nonprofit doesn’t mean ‘without cost.’ Telling people your story takes resources.

— **TIM MALONEY,**
MERCY SHIPS CANADA

If you visit the MS Society website:

- **You’ll learn** about the millions of dollars the Society funnels to client services, research, education and awareness, volunteer development and advocacy.
- **You’ll learn** it’s volunteer-driven, with over a million donors and 100,000 event participants.
- **You’ll learn** that unlike most health charities, it receives almost no government support (3% of total revenue, compared to 70% for most health charities) and few bequest dollars. A donor profile linked to that page features a volunteer who is thrilled he can donate a life insurance policy — because “many of our members are challenged to even qualify for life insurance.”

www.mssociety.ca/en/community/mssc/fundraising.htm

Only after clicking through to another page do you find the predictable material about ethical codes, regular audits, privacy, efficiency and non-commissioned fundraising. Even there, you'll find direct links to volunteer involvement, client services and research.

Some of our most grassroots events like our walking and cycling events have significant costs associated with them: staff to coordinate the event and manage thousands of volunteers who help organize the events, producing and mailing approximately 200,000 tax receipts annually, marketing materials to encourage participants to raise funds, prizes to reward fundraising efforts, security, and rental of start/finish locations among many others.

— MS SOCIETY OF CANADA

A MODEL OF COMMUNICATION

The society's up-front explanation opens a window to the expenses, volunteer management and administrative work related to events — a scene that is rarely noticed or understood by people outside an organization. It helps people understand that its portfolio of sources and campaigns reflect a business strategy of revenue stability through diversification that is common in the corporate world. And it convinces visitors that the society's strategy is a prudent one given the constraints it faces.

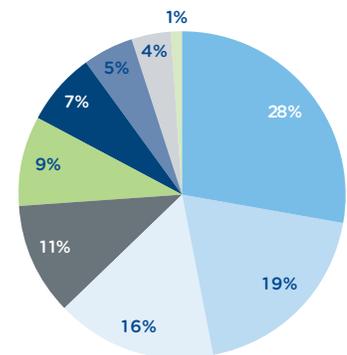
In short, it's frank, clear, and free of self-pity. And it does a great job of educating donors. ■



Did you know?

Philanthropic Revenue By Sector (2012)

Total fundraising revenue amounted to \$22 billion. Religious organizations continue to attract the largest proportion of philanthropic revenue at 28%. Education/Research and health-related organizations continue to be top philanthropic priorities for Canadians, attracting 19% and 16% of philanthropic revenue, respectively.



- Religion
- Education & Research
- Health
- Other/Unspecified
- Social Services
- International Aid & Development
- Other Community Benefits
- Arts & Culture
- Environment

Source: <http://www.kciphilanthropy.com>



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