THE COST OF FUNDRAISING
Donors to charities have high expectations of the portion of their donation going to the intended cause, and are wary of the costs of fundraising (Slack, 2013). When considering the initial outlay of methods of acquiring donors and donations, costs associated with the raising of funds spring to mind. Branded raincoats for chuggers, plastic wristbands or ribbons for donors – these aren’t free to produce, and, unless otherwise funded, a charity may need to allocate a portion of its donations to investing in infrastructure for securing more. However, a lack of discourse around the topic of the costs of fundraising makes alarm bells sound, and a conversation about charities’ costs is seen as cause for feeling hot under the collar (Slack, 2013).

In reality, it costs charities to raise funds – whether this is considered in terms of the monetary cost of fundraising infrastructure, or the work that is put in by individuals to maintain it. It’s the same story with other organisations, but for charities it is a sensitive subject because of donor expectations of the use of their money. It’s unrealistic for charities to purport an absence of overheads and other costs, and for this reason the idea of educating donors about the expenses their donations may cover is beginning to come to the fore (Slack, 2013).

However, it isn’t a case of ‘build it and they will come’ – though the monetary cost of raising a dollar online has the potential to be lower than other methods, there are work investments that must be taken into consideration. In order to reap the low fees benefit of online fundraising, a community of online givers must be established and actively maintained. A sound understanding of online interaction and a bank of interesting content are strong starting points, but the cost-effectiveness of a shift to fundraising online will only be seen with a real investment of time and effort.

Though costly methods of fundraising such as paid chuggers, school galas and the sale of plastic wristbands seem inescapable, the advent of the Internet and online fundraising platforms means that access to cost-effective ways of fundraising is open and widespread. Online fundraising is proving to be effective too – it continued to grow at a double-digit rate even during the recession (Hopfensperger, 2012). We’re doing more and more of our daily routines online. Grocery shopping, banking, reading the newspaper – and stats like the aforementioned make a case for charities who embrace the move into the online world being set to benefit.

Nearly every dollar a charity raises comes at a cost, whether it is taken as a percentage after the fact or invested prior. The former director of fundraising at the UK’s National Society for the Prevention of Cruelty to Children says it is “damaging” for charities to tell their donors that their entire donation will go directly to the cause without acknowledging the existence of costs (Slack, 2013). If this is the case, he says, it is only because other funders cover these costs, and to leave this fact out of the conversation misleads the public.
The promise (whether explicit or unspoken) that a donor’s contribution gets through to the cause is fuelled by a lack of reporting on fundraising costs. Rather than being presented by the charities themselves as a fact of their work, they are more frequently “revealed” by media in pieces such as ‘Charities’ fund-raising costs swallow millions in donations’ published by Melbourne’s The Age (Browne & Whitbourn, 2013). The chief executive of Philanthropy Australia says donors are often left to do their own research on the topic of fundraising costs, and the data available is not always user-friendly (Browne & Whitbourn, 2013).

TELEMARKETING

Chuggers aren’t the only ones consumer watchdogs look out for – telemarketers soliciting donations on behalf of charities are subject to similar concerns. Those working in contact centres must be paid, but the cuts from donations of up to 90% that are discussed can be cause for concern (Pallotta, 2012). Consumer has looked into the issue and found that though people working in contact centres typically earn $13 an hour, it’s difficult to find out what percentage goes to charity as neither the telemarketing company nor the charity publish this information (Consumer, 2009). The Epilepsy Foundation has come under scrutiny for their telemarketing fees, with Epilepsy New Zealand stating that only 25% of donations made it through to the cause between 2006 and 2009 (McCracken, 2009).

DIRECT MAIL

Direct mail is billed by New Zealand Post as the “smart, accurate and measurable way to get closer to your customers and find receptive new customers” (New Zealand Post, n.d.). It’s also expensive! Most not-for-profits attempting to acquire new donors through direct mail need to hire staff, expert consultants and tech in order to make it happen (Fritz, n.d.). The lavish, glossy nature of some charity’s direct mail campaigns speaks volumes when considering their cost. A UK-based fundraising consultant says additional material included in direct mail such as brochures simply add to these costs and are barely justified by the low increase in response rates they yield (Kolaneci, n.d.). Could an email do?

HOW IS ONLINE FUNDRAISING ANY BETTER?

While methods such as direct mail and telemarketing can cost up to $1.25 to raise $1 from a new donor, online it can cost far less. With fewer personnel to pay (i.e. the chuggers and the call centre staff), it can be a simple matter of skimming a processing or admin fee.
Andresen & Mann propose that with fundraising, the messenger is more important than the message (2007). One of these “wired fundraisers” is an effective medium for promoting an online fundraising effort because people look to human beings rather than organisations to connect with (Andresen & Mann, 2007). Once a member of the charity’s community is engaged and interested in the cause, spreading the message further online is as simple as clicking a button to share it on their Facebook. Research shows that over three quarters of people say their friends and family have the most significant influence on the causes they choose to give to (Andresen & Mann, 2007). If a cause becomes the topic of conversation between members and their personal networks, an online fundraising effort becomes more likely to prosper. A mobilised fundraising community can spread the word effectively and without any cost to the charity or its donors.

Chuffed, an Australian-based crowdfunding platform, operates a zero fees model thanks to the Telstra Foundation. Donors have the option to contribute to the operating costs of the organisation on top of their original donation – meaning that fees are not deducted from money intended for a cause. CEO Prashan Paramanathan elaborates on the logic behind this model below.
“At Chuffed.org, we chose a zero-fee, optional-donation model for one reason - transparency. Donors kept on telling us that they didn’t like that they didn’t know where their donations were going or how much was being taken by the platform. So we decide to make it completely obvious.

100% goes to the campaign, the donor pays the very low credit card fees on top, and then they can choose how much they want to give to us (Chuffed.org). On some donations, we make nothing at all, but on average, people get the model, and more often than not, choose to support us. We’ve found, as a whole, people understand that as a non-profit, if they choose to give to us, it’ll mean that we’ll be able to support even more campaigns like the one that they’re currently supporting. And then of course, there are those people that donate $100 to the campaign and $50 to Chuffed.org - we like those people.

Long-term, I think zero-fee, optional-donation models will become more popular. As more and more crowdfunding platforms pop up, competition will drive down price points for platforms that do take a cut, which will slowly become a tougher business model to manage. We think having a zero-fee, optional-donation model - while admittedly sounding challenging - will not only be better for donors, but will actually be the better commercial play long term. ”

IN CONCLUSION

A lack of discourse concerning the costs of fundraising leads to an awkwardness surrounding the topic, and unrealistic expectations from donors. Chuggers, charity products and telemarketers all have associated costs that must be paid before money can be put towards the cause that funds are being raised for. Online fundraising may be seen as another favourable option because of comparatively lower costs of acquiring donors, but there is significant work associated with this option. An understanding of what donors want and how best to put an online model to work is integral to ensuring a move towards cost-effective fundraising.
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