The storm, for nonprofit organizations, is fully brewed. The decline in the number of new donors supporting nonprofits continues. Contributors are getting older. Government funding for social programs is in sharp decline. Accountability questions continue to arise for both foundations and their grantees. All told, the demand for services is up, revenues have barely regained their pre-recession levels, and expenses are rising. We are tempted to call this a perfect storm…or the nasty aftermath.

This turmoil, however, is actually imperfect. It has many dimensions, and we do not well understand their interactions. Although it is tempting to blame the economic downturn for all that ails nonprofits and charitable giving, the reality is that the current uncertainty is the new normal and we can’t expect calm waters for smooth nonprofit sailing. Here are five shifts in the environment for nonprofits that co-mingle with the economy to create the potential for continued rough weather ahead:

1. Donors, over time, are dramatically changing in what they seek through philanthropy. The same fundraising appeals no longer work, even in a strong economy. Smart nonprofits want the check writer, not just the check.

2. Contributors increasingly shift from funding programs to investing in results. They are less interested in how many are served than in how many are helped. In the next five years, information on nonprofit effectiveness will trump information on efficiency, compliance and even sustainability.

3. Many donors have moved from a desire to support multiple groups working on a single issue to investing more money in the specific organization that produces the strongest result. Given this, blending in for nonprofits is now less useful than standing out.

4. Donors want to see data, not just hear a few stories. The premise is that they will use the same good sense they employed to make their money in how they spend it for human benefit. The key factor in both cases is information — used in real time by both the investor and nonprofits implementing the programs. Data use is far more critical to them than a database.

Editor’s Note

In this article, the authors share perspectives on the state of the nonprofit sector based on their knowledge and experience. Marc Chardon is CEO of Blackbaud, a software and services provider to nonprofits that has a division focused on analytics, and Hal Williams is an internationally respected Outcome Guide who has helped foundations and nonprofits both large and small use an outcome-based approach.
5. Full program delivery (even to all known quality standards) is no longer seen as the natural equivalent to great results. The shift is from the program to the participants and how these individuals make progress toward improving their lives and conditions. Lockstep, uniform participation in a service may or may not be needed or even helpful. We must honor the reality that a great predictor of success lays in the extent to which a person engages in his or her own achievement.

Our premise is that nonprofits cannot ride out this storm. Instead, they have to find a way to sail within it. Put differently, we are not interested in how groups manage in tough times. Too often, that is about staying afloat. We are focused, instead, on how these groups thrive in tough times, which is defined as both having a destination and reaching it. Below is our take on how to navigate the imperfect storm. Our thoughts are organized as a response to the five shifts noted above. In all cases, our responses share one premise: that loosening up is better than hunkering down. As the writer Jessamyn West once noted, “The statement, ‘I can endure anything,’ is equivalent to saying, ‘I will risk nothing.’”

#1: Nonprofits need to keep up with their donors

While nonprofits often speak about the need to keep their donors “up to speed,” the real challenge is keeping the organization up to date on its own contributors! Generational shifts are profound. Our parents gave to worthy causes to feel responsible, to gain high standing in their community, and to “get into Heaven.” Our generation of boomers increasingly focuses on results from services that are offered. Our children, and the next generation, increasingly seek levels of meaning that tie to both accomplishment and donor identity with multiple touch points that replace the once-a-year contribution. They want to put themselves in the picture in deeper ways.

Are donors external to the nonprofit enterprise or are they part of it? Does the organization inform them, or does it engage them? Do they feel that their only gifts are financial, or do they offer broader treasures? For example, we know of a donor who contributes to an orphanage in Mexico that tells its sponsors they are expected to visit at least once a year and to engage with the children they support by email, phone, Facebook, etc. This is in stark contrast to receiving a card about a child and not caring if the same picture went to hundreds of other donors, as well.

Increasingly, donors want personal discovery going in both directions. It’s about advocating, volunteering, testing, and trying. At heart, contribution is increasingly a way to find meaning. This makes it far more than fit to the latest technology. Being on Facebook and Twitter, using smart phones and tablets, has little value if these channels are not used for intentional engagement.

#2: Nonprofits need to define themselves by their results

When you look at the websites of nonprofits, you can learn that a great many people in need were served by their programs. What you can’t learn is just how many of these people tangibly improved their lives. Certainly, having a mentor is not equivalent to getting to grade level in reading, just as going to a workshop is not equivalent to losing weight or stopping smoking. Nonprofits need to cut to the chase of achievement.

“The Imperfect Storm

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“Early identification as a data point means intervention at a point when it is both less costly and far more likely to work.”
The traditional approach to outcomes, regretfully, can obfuscate as much as clarify specific human gain. A perfectly completed logic model puts groups in the fundraising business. A clear report card of results, published annually, puts them in the outcome business. Results are a dimension of considerable interest and attention. Indeed, outcome mania continues to rule the roost at the intersection of funders and nonprofit organizations. Regretfully, this is progress going in the wrong direction. Why?

First, the focus is often on remembering and repeating the words of the funder. Is it a goal, an outcome, a result, a benefit or a target? And to see progress, is it a benchmark, an indicator or a milestone? And given that one funder’s benchmark is another’s indicator, the beleaguered nonprofit has to keep learning new terms just to comply fully with the language requirement. They’ll do it because they want the money, not because it seems essential to their work. Much more serious is the way in which outcomes have become their own form of compliance. Rather than looking for the core logic of a program, nonprofits want to make sure they have the right words in the right columns on the logic chart. They perfect the document rather than the program.

#3: Nonprofits need to ride for their brand

Another major change is from the plural to the singular. While philanthropy has emphasized groups working together in partnerships, networks, and collaborative ventures, the emerging philanthropic focus is on which groups achieve at the highest level and thus should receive scarce dollars to improve human lives and conditions. We see foundations and individual donors shifting from sprinkling support among many groups doing good work in a given space to figuring out which groups are achieving the greatest impact and, then, supporting these specific organizations more substantially. This sea change is about moving from blending in to standing out.

Although painful in an arena that often stresses that all nonprofits are doing great work, the ability to understand one nonprofit’s results in the context of the results produced by other groups is now an essential part of fundraising. The organizations may not be competitive, but they are comparative, like it or not.

Nowhere is the need for distinctiveness better seen than in the renewed focus on brand. Brands do not establish a class of groups. They exist to define and protect distinctiveness of an organization. A brand is not a logo, nor is it a carefully crafted mission or vision statement. The brand is a promise—a discipline of how the organization behaves and communicates. And the value of the brand is what consumers think it is, not what our wordsmithed mission and vision statements proclaim.

#4: Nonprofits need to use data to both improve their stories and to tell them

Historically, nonprofits collect information to report back to funders, regulators and other stakeholders. Although they may say and think they do, these same organizations rarely use the information to make better decisions that improve outcomes — especially in the real time of someone receiving the service.
The key is not data; it is meaning that comes from the data. Technology companies working with nonprofits achieve their highest value not by helping groups do reports of monies raised but rather by helping them use data trends and patterns to increase how much money comes in. This work is highly distinctive in making sense of screens of fundraising data in order to define what new actions will most increase contribution revenue. Increasingly, companies that offer analytics are worth more to both buyers and customers than are companies that leave it at data processing.

A brief example shows the power of this approach. When donors move from one place to another, most are lost for years until the nonprofit catches up with a change of address. In a few cases, however, the donor takes the time to tell the nonprofit that he or she is moving and to provide a new address. The high level of engagement of the donor reflected in this step predicts that he or she is highly likely to give more than they now do, if their high engagement is reciprocated. Call them — from a regional or local affiliate or office if you have one and, if not, from headquarters. Welcome them to the neighborhood, and remind them that you are there as well, doing the great stuff that their money makes possible. This is money in the bank.

On the nonprofit programs side, analytics now look at early benchmarks that suggest much prompter intervention to help participants get to a result. Historically, for example, teachers waited until benchmark assessments or several months of school elapsed before offering help to students who were at risk of failing a course. Yet when teachers are asked how soon they can identify which students are at risk, most say within two weeks. They can see early signs, many of them pointing to the level of engagement in the classroom. Early identification as a data point means intervention at a point when it is both less costly and far more likely to work.

# 5: Nonprofits need to start and end with customers

Peter Drucker once noted that a product (good or service) is almost never defined by the customer in the same terms as it is defined by the people delivering it. Yet we continue to look at nonprofit work in terms of the work plans, quality standards, and other factors that go into a program. We somehow see the participants as the object of the program but not a core part of what it is and should be.

In successful business, there is a clear distinction between two factors: product discovery and product development. Whether for-profit or nonprofit, a group that goes right from problem statement to the specification, design, and building of a product misses the boat. The first step is discovering what customers or participants believe they need and can use. That’s product discovery, and it is especially important when customers cannot readily articulate the need nor have any idea of easier options. A business searching for the best electronic health record is no different than a family of low income struggling to define the specifications of an educational solution that will meet their needs. In both cases, discovery is essential in that products are successful only when people choose to use them and use them in ways that work. Most social programs are utterly dependent on their participants to change their behavior. When and how they are prepared to do so is critical discovery. Without it, product development is highly likely to rely on critical assumptions that prove not to be true.
In addition to customer understanding and customer relationships comes customer importance. In fundraising, we have seen a shift from the historical, campaign-centric efforts to a new focus on the donor. In a campaign-centric world, the organization needs a certain number of people to give money, and if one drops out, another is found as a replacement. In the donor-centric approach, when a donor drops out, the need is about finding out why and how to get them back onboard. The focus is on the individual rather than on overall totals that care little about substitutions of people within them.

To the same point, we have observed that nonprofits tend to spend little time talking with those who drop out of a program. As long as the person can be replaced with another, the numbers still work. If the focus is on the participant (in the same vein as with donors), then losing a participant should ring the alarm bells. Especially when a person has occupied a seat, a bed or some other precious real estate for the majority of a program, the opportunity cost is very high. Why did the person leave?

We close this initial piece with a question: what predicts whether an organization will take action to achieve in tough times? Because we are both in the data business, it is tempting to say that knowledge predicts forward progress. Organizations first define and understand what they should do, and then they do it. Alas, this is seldom the case. Information alone is almost never enough to prompt change. The key to taking action is a resource vastly underrated and understudied. It is energy…the positive energy available to persons and organizations. Energy brings needed stamina to handle the weather and keep on sailing. It brings enthusiasm and optimism that are so usefully infectious. And it yields the ability to regenerate and transform what is needed to reach and surpass safe haven.

> In subsequent articles, we will go deeper on these themes, offering specific advice on steps to take. What is your take on the imperfect storm nonprofits are facing?