Challenges, Change and Innovation? – What is Happening in Face to Face Fundraising?

Five years of change

The last five years have seen increasing challenges for face-to-face fundraising in Australia. This can be measured in higher costs to acquire new donors and falling rates of donor retention. The average cost to bring a new donor on board has increased from under $300, to in some case, more than $450 per donor. The average retention rate for new face-to-face donors at 12 months from sign up as has fallen from more than 50% to under 40% in the same period. The consequence of these two trends can only be a fall in the net income for charities to use in funding their work.

Despite these trends, the annual income from face-to-face fundraising is still measured in the hundreds of millions of dollars. The channel remains a critical method for charities to find new regular donors, and annual investment in face-to-face fundraising remains at more than $100 Million. In response to these challenges there are signs the first time in many years, of innovation within face-to-face fundraising.

This article seeks to identify what are the underlying causes of these trends, how sector-leading organisations in charities and face-to-face agencies are responding, and whether recent innovations will be able secure the long-term financial viability of what remains our sector's most important way to inspire people to become regular donors.

Why have costs increased?

Three major changes have driven increases in costs. The first is the rapid transition from the engagement most face-to-face fundraisers as independent contractors, paid by commission, to most fundraisers being engaged as employees paid a wage. This followed the response by charities and agencies to increased scrutiny of workplace practices by trade unions and the Fair Work Ombudsman (FWO) - we still await the FWO report on the Charity Collection Inquiry that was started in October 2016.

This has had a profound impact on costs. The financial risks of face-to-face fundraising have shifted from the individual fundraiser to charities and agencies. Charities and agencies are now engaged in an ongoing negotiation as to who will carry that risk.

Increase in compliance requirements for agencies are the second major factor. This reflects an acceptance by charities and agencies that without an improvement of standards, face-to-face fundraising was at risk of being regulated out of existence. The sector has taken on this challenge through formation of the PFRA and implementation of an effective self-regulatory regime. This change was essential, but it has added to the cost of doing business for agencies.

A third shift is the explosion in sub-contracting, facilitated in part by the introduction of electronic data capture at the point of sign up. This has reduced the level of investment and business skill required to start a face-to-face fundraising business. Now it is almost enough to just have an iPad to start a sub-contracting business. The "going rate" for a sub-contractor is now around 10 times the monthly gift. Just five years ago this was close to the total fee paid by charities. Agencies now find it harder to retain good leaders as there is always another agency prepared to pay them a bit more to become a sub-contractor, and there is always a charity prepared to pay that bit more to these agencies because they need to hit their donor acquisition targets.

Why has retention fallen?

John Burns, Director of Fundraising at Plan International first said "*retention is the new acquisition…"* at a conference in 2006 and believes that this is still a critical message thirteen years later. It is worth noting that Australia is not alone in a trend to higher attrition: Elsbeth De Ridder, Global Face to Face Fundraising Manager at Save the Children International notes that attrition is increasing in most markets globally.

But what is driving attrition higher in Australia? Agencies and their fundraisers potentially have less financial motivation to maximise donor retention – there is a trend for agency contracts to reduce or eliminate financial consequences for poor retention. Carl Young, Philanthropy and Fundraising Director at Peter Mac advised that "charities should seriously question the merits of signing a contract where they pay for zero debits", yet many charities find themselves doing this, either through lack of understanding of the financial consequences, or being under pressure to find new sources of donors and needing to secure their market share.

Mark Gallen, Director of Client Services at agency Global Interactive also identified a further cause in the reduction of the size and sophistication of agencies and reduced margins. This makes it harder for agencies that do have a focus on Return on Investment (ROI) and donor quality to invest in the resources to analyse and manage the performance of their fundraisers. Agencies without this focus can reduce their overhead and instead invest these funds into increasing their share of the sub-contractor market.

Adam Watson, Director of Fundraising Partners suggests, with so many new suppliers in recent years, there might be a change in motivation that has aided the slip of quality in favour of quantity. The split between the money motivated and those who consider themselves and their companies to be genuine vehicles for change can leave a devastating impact on industry outcomes evidenced by subcontractors regularly switching allegiances for a better multiplier rather than sticking with a client for their passion for the cause.

Reducing Attrition, Increasing LTV?

The sector has not been static in responding to these challenges, but how can costs be controlled, donor retention improved, and income increased? Some sector leaders are encouraging charities to focus on increasing the Life-Time Value (LTV) of their face-to-face donors. Elvira Lodewick, General Manager, Marketing and Fundraising at Mission Australia emphasises the need to maximise LTV and that this can only be accomplished by constantly demanding quality from vendors and by effectively modelling LTV and understanding the factors that drive this higher.

Josh McNeil, Manager, Direct Marketing Unit of Cancer Council NSW believes that of these constraints, the one that may be least difficult to shift is donor attrition, as agency costs are increasingly locked in by fundraiser wage increases.

There may be cause for optimism in this, as charities and agencies have begun to innovate through measures such as taking the first donation at the point of sign up. This has been shown to reduce attrition in the early months after sign-up. Another innovation from some agencies is the implementation of fee structures that reward agencies for attracting donors from demographics known to have better long-term retention.

One personal hobbyhorse to share and to seek views on. Perhaps also it is time for us to benchmark agency performance, particularly around attrition rates in the early months? When presented with an agency contract a charity will know what the cost is – but will have to guess at the likely attrition rate. If that information were available from a reliable source would that not start to encourage agencies to compete on quality as well as other factors?

Is structural change starting to happen?

Perhaps the most intriguing grounds for optimism comes is a move away from the "agency / charity" status quo. Some charities have successfully implemented in-house teams and taken the agency out of the equation completely. Many more charities have tried this or at least investigated it, and then remembered the reasons they out-sourced in the first place – managing face-to-face fundraising teams is hard work! But, is this an "all or nothing" option? Recent changes suggest maybe not.

Some agencies are offering "hybrid" models to charities wishing to benefit from the potential benefits of in-house teams, but without investing in developing all the systems necessary to support what may be a small-scale operation. It makes sense for each partner to maximise their strengths: charities can inspire fundraisers by integrating them into the cause and benefit from tax advantages; agencies can generate income by providing access for charities to business systems based on years of experience in supporting face-to-face teams. Why hire someone to build a locations database from scratch or to recruit fundraisers, when someone else can manage that for you?

An extension of this is a shared services model, where multiple charities looking to bring their face-to-face fundraisers in house, share the investment in the "back end". This has been taken to its logical conclusion in recent months by CanTeen, National Breast Cancer Foundation, Starlight and UNICEF, who have formed their own dedicated face-to-face agency "Rippling", which also operates as a charity. At some point they may trial fundraising together and have given themselves a deadline of three years to prove the effectiveness of the model.

Beyond this there could be other ways to shake up the market. Is there scope for a business (or even a social enterprise) to act as a process, quality and compliance manager for multiple agencies? Social enterprises also create the possibility for increased employee participation, or even employee ownership in face-to-face fundraising.

Conclusion – time to join the dots

The basics haven't changed in 20 years of face-to-face fundraising in Australia: find some lovely, enthusiastic people and give them the skills to inspire equally lovely people to give their money to effective organisations to fix complex global problems. There are only so many ways for charities to ask people for money, and a personal conversation is still one of the best. It is vital though that we don't completely wear out our welcome by forgetting these essentials in the rush to "hit the target".

Change is happening, but more is needed. As with all business sectors, innovation is not usually a result of a brilliant individual inventing something completely unique. More often innovation flows from someone joining up some existing dots in a new way. It's overdue but, it seems like this might finally be happening in face-to-face fundraising.

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