Why Innovation Matters

With big change looming in giving, nonprofits must experiment — and challenge their assumptions.

By Nicole Wallace

Worried about its future, the Nature Conservancy recently created a special fundraising fund. The group won’t say much about this pot of cash — Dave Strauss, director of global membership, describes it only as "a sizable chunk of money" — but it’s the rarest of investments: fundraising dollars with few revenue expectations attached.

Like that of many nonprofits, the Nature Conservancy’s donor pool is growing older as baby boomers and younger generations increasingly become immune to direct mail. Mr. Strauss thinks the answer is digital — some combination of the web, social media, and mobile. Yet charities still haven’t cracked the code on how to acquire new donors online on the scale that direct mail once did.

What to do? The Nature Conservancy doesn’t know, but it aims to find out. Over the next five years, with money from that special fund, it will test new approaches and strategies as it conducts a series of experiments to increase online acquisition of donors. There will be failures, Mr. Strauss says, but also, with luck, innovation.

"When and if we find that innovation," he says, "I will then go back to the organization and say, 'Hey, we’ve got a program that we believe can scale.'"

The message of this Nature Conservancy project is one that’s hard for fundraisers to hear: Growth for nonprofits, and even survival, will depend on experiments in fundraising. With each passing day, raising money becomes a less predictable enterprise. What’s worked in the past isn’t guaranteed to work again, experts say. Not with generational churn in the donor base as young contributors, whose motivations for giving are as yet unknown, replace aging stalwarts. And not with Facebook, Google, and other tech giants moving into the giving marketplace along with crowdfunding platforms.

"What got you to today isn’t going to get you to where you need to be tomorrow," says Jeff Giddens, a senior vice president at NextAfter, a fundraising–consulting company. "Nonprofits are starting to realize, ‘Hey, if we want to grow, we have to try new things.’"
THE SOCIAL DONOR

Many fundraising experts are born out of nonprofits’ urgent need to replenish aging donor pools.

Sarah DiJulio, a principal at the fundraising-consulting company M+B, has a theory to guide this work: Younger donors, she says, often look at giving as something they do as part of a group rather than as a personal act.

Her evidence is intriguing. Exhibit No. 1 is the explosion of crowdfunding. Each year, people use popular sites like Indiegogo and GoFundMe to raise billions of dollars to start new businesses, pay medical bills, develop new products, record albums, and produce experimental theater. Only a fraction of the giving goes to nonprofits.

The sites invite donors to make a difference together, Ms. DiJulio says. Kickstarter, she points out, doesn’t even charge supporters until enough people have pledged to meet the fundraising goal.

"It is inherently a community activity even if it’s just you and your credit card and the internet when you do it," she says. "You’re doing it in this social context."

An analysis Ms. DiJulio and her team did of several clients’ online fundraising seems to back up her social-donor theory. People on their email lists who had never given before were more likely to make a first donation in response to a Giving Tuesday appeal than to a traditional year-end solicitation on December 31, the biggest online fundraising day of the year.

"Giving Tuesday is a day when you give because other people give," Ms. DiJulio, says.

Unfortunately, she adds, nonprofit fundraising — especially direct mail — ignores the needs of social donors because it’s still designed for traditional donors who write checks.

"Even if you run a Kickstarter or you do a little Giving Tuesday campaign," Ms. DiJulio says, "what are you offering people the rest of the year?"

Simple experiments to tweak fundraising are routine in the nonprofit world. Savvy practitioners test whether email subject line A will inspire more donations than subject line B, or if it’s better to add a photo to the envelope of a direct-mail appeal or a brightly colored call to give.

But ambitious experiments that question conventional wisdom and test new ways to raise money are rare in an environment in which nonprofits are terrified to risk even small amounts of money.

"Nonprofit organizations shy away from edgier testing because we want to make sure that we are good stewards of all contributions," says Vinnie Wishrad, a senior vice president at the League of Conservation Voters.

Plenty of fundraisers want to test new approaches, but at most nonprofits, they meet a wall of resistance, says Lynne Wester, founder of Donor Relations Guru, a fundraising-consulting company. The staid, fearful culture of development offices might even be a factor driving fundraiser turnover.

"This constant tension between new ideas and new people and people who’ve been there awhile and are not open to new ideas is really causing this stir and this unhappiness in our profession," she says. "Who wants to bang their head against the wall all day?"

The Nature Conservancy’s decision to go all-in with an innovation fund was influenced by a 2011 fundraising gambit. That year, the environmental group experimented with street fundraising, with canvassers asking for one-time gifts. Two years later, the effort still wasn’t meeting fundraising goals.
At that point, many organizations would have ended the experiment. When groups scrape together funds to test a new fundraising idea, there’s considerable pressure for first-time success. No one has time or money to tinker and try again. Yet the Nature Conservancy did more research and decided to send the canvassers out again, this time to seek monthly gifts.

The revamped strategy not only worked but exceeded its goals. The program has since expanded to 15 cities, its success offering the organization an important lesson: Innovation is not necessarily a one-and-done thing.

"If we had cut the program at that one point where we said, ‘It’s not working,’ we wouldn’t have had a new bread-and-butter program for the organization," says Mr. Strauss.

**Silicon Valley Threat**

Though the Nature Conservancy innovation fund will focus on acquiring young donors, Mr. Strauss says it will also help the organization meet a looming threat posed by technology behemoths. Google, Facebook, and other companies aspire to steer charitable giving through their platforms. If they figure out how to drive massive amounts of giving online before charities do, the implications for the nonprofit world could be significant. The tech giants, Mr. Strauss says, won’t turn over donors’ names and addresses or contribution totals.

"Every organization will get lump sums of money from Google and Facebook and Amazon," he says, but they won’t be able to cultivate those donors.

The handful of nonprofits that have incorporated experimentation into their fundraising are reaping important benefits. The immediate payoff is increased donations, but groups also gain the confidence to buck fundraising convention and use data to chart their future.

Two years ago, the Union of Concerned Scientists tested the direct-mail maxim that you have to send more direct mail to raise more money. It was a yearlong, high-stakes experiment: Many nonprofits would refuse to put revenue at risk.

The environmental group divided its donors who give less than $1,000 a year into two groups. One group continued to receive the nonprofit’s typical annual series of 12 to 15 direct-mail appeals, while the other received three solicitations along with three no-ask updates about the organization’s work. (The group’s risk-tolerance did have limits. It omitted from the experiment donors who routinely gave two or more gifts a year, says Laurie Marden, its chief development officer. "We were, like, ‘Ahh, that’s the highest risk. Let’s leave them out of the test for now.’ ")

At the end of the year, results for the two groups were strikingly close. The total amount given by donors who received fewer letters was 4 percent lower than giving by the other group, but that was more than offset by lower mailing costs, and the average gift was $2.62 higher.

Based on these results, the Union of Concerned Scientists rolled out a reduced mailing schedule at the beginning of last year. Each quarter, all donors received a direct-mail appeal, an update about the organization’s activities, and an issue of its magazine.

The organization is still tallying 2016 giving, but Ms. Marden and her team are excited by the early results. Though the average gift size was down $2.48 from the year before the experiment, the number of gifts per donor had increased. After expenses, the organization netted more than $70 per donor, a $10 increase.

Thinking carefully about the risks and designing an experiment that tested the two mailing strategies head-to-head helped sell organization leaders on the initial test, says Ms. Marden.
"Is it going to work for everyone?" she says. "Probably not. Is it worth testing? Absolutely."

‘Analysis and Rigor’

The Royal National Institute of Blind People in London is seeing similar gains, thanks to a team of analysts who crunch data, run reports, and conduct experiments to inform fundraising decisions.

The Fundraising Insight Unit was created in 2009, and early on, it helped the charity settle a longstanding debate: Should the institute ask supporters who buy its raffle tickets if they’d also make a donation?

BIG GIFTS AND EXPERIMENTATION

Most fundraising experiments focus on direct mail and other efforts that seek small gifts from lots of people. Fundraisers say they can’t experiment when it comes to major gifts because each donor relationship is different. But philanthropy researcher John List disagrees.

Many approaches to soliciting large gifts have steps in common, such as donor visits, says the University of Chicago economics professor. Through experimentation, he says, fundraisers can identify which of these are effective.

"People have their anecdotes, and they have their rules of thumb," he says, "but right now I think it’s fair to say that there is no science driving that."

To jump-start research, Mr. List is surveying major-gift experts about their strategies. He plans to use the results to write a guide that lays out steps to seeking large gifts, identifies points where approaches agree and disagree, and suggests experiments that might illustrate what works best.

"We should be testing where we have disagreements and where we have shared feelings, because some of those shared feelings probably aren’t right," the economist says.

While Mr. List expects to publish the guide later this year, he thinks fundraisers will wait for researchers to conduct the tests rather than risk a big gift in the name of experimentation.

"Unless you have people in organizations or big donors who are demanding that they walk down that road," he says, "I don’t think people will do it on their own."

Some in the organization argued the charity was missing out on a potentially lucrative fundraising opportunity. Employees who ran the raffle resisted, fearing the donation request would cut into ticket sales. As a test, the Fundraising Insight Unit added gift requests to some of its ticket sales. The result: a slight decrease in raffle income offset by a far greater increase in donations.

Based on this test, the group started asking all ticket buyers if they’d like to make a donation. This has increased giving by $1.2 million annually, a small but still meaningful portion of the $80.7 million the group raises from individuals each year.

Now the Fundraising Insight Unit is developing models to predict which supporters and potential supporters are most likely to respond to different fundraising approaches. "It adds a level of analysis and rigor that means we can be far more confident that what we are doing or what we might want to try will be successful," says Steven Greenberg, who oversees individual giving at the Royal National Institute.

Nonprofits draw from a variety of sources to guide their experiments. The international development group Project HOPE borrowed an assessment tool from business to test and improve its recurring-giving program. When Jann Schultz, senior director of individual giving and communications, started working at the organization more than three years ago, she knew monthly giving could grow, but she wasn’t sure where to start.

"What stopped me is, how do you go to market without any insight into the kind of branding or the price point or the benefits that are going to resonate with the donor?" she says.

To start, Project HOPE worked with a fundraising-consulting company to conduct the kind of survey for-profit companies often use to develop new products. It showed participants — donors and others who share their demographic characteristics — 12 pairs of monthly giving appeals and each time asked which they preferred. A statistical analysis of participants’ answers allowed the organization to determine their preferences on things like logos and the amount requested. Two elements were most important: the message
about a monthly gift’s impact and the statement of the program’s value to the donor. After redesigning its
monthly giving program to reflect that finding and others, Project HOPE saw the number of recurring
supporters increase 10 percent in 18 months. Also, three times as many people made their first donation to the
organization as a monthly gift.

Buoyed by this success, Project HOPE is starting a street-fundraising program this year to acquire new
monthly donors.

The business technique helped Project HOPE understand quickly what mattered most to its donors, says Ms.
Schultz. It’s what corporate America calls “choice-based conjoint analysis,” and it’s the equivalent of running
roughly 15,000 tests that pit one element of an appeal against another, she says. That is often called "A/B
testing."

"I couldn’t test my way through 15,000 packages effectively in who knows how many years," she says. "But
we were able to do that in the space of a couple weeks."

Charity: Water found inspiration for an experiment in academic research. Previously, when the
nonprofit asked its website visitors to become recurring donors, they could enter a dollar amount
or accept a figure pre-filled in the box — $30, the cost to bring clean water to one person. But the
nonprofit’s data scientist questioned that approach when he learned about the concept of “anchoring.”

Anchoring is a term psychologists use to describe how a sight, sound, or experience can work in an
individual’s subconscious to spark a certain response. Charity: Water’s data expert read about a
study in which participants wrote down the last two digits of their social-security numbers and
then bid for an item in a simulated auction. Those who had the largest numbers — say, 99 — bid
much more money for the same item than participants whose last two digits were small. The
large number, researchers concluded, primed them to be more aggressive financially.

Applying the concept to Charity: Water’s monthly donor program, the organization conducted a series of tests
to measure the effect of different suggested donations — $5, $10, $30, or $60. It worked just as it did in the
study: Donors who saw the $60 suggestion gave more each month than others. Equally important, the higher
figure didn’t scare off donors; the percentage of people who completed the gift didn’t drop.

Now, the $60 suggested gift is standard on the Charity: Water website. And the organization is testing even
larger amounts.

Though experiments like the anchoring test are critical, qualitative research is also vital to understanding
donor behavior, says Christine Choe, director of strategy and business operations at Charity: Water.

Recently the nonprofit tested a donation match that performed worse than the straight donation request,
something that had never happened before. "We were so confused," Ms. Choe says.

The organization followed up with some usability testing with people who weren’t familiar with Charity:
Water. Through interviews, it learned that the language describing the match was confusing. Once the
organization cleaned up the message, it performed better.
WHAT DONORS WANT

A creative person, Project HOPE fundraiser Jann Schultz was very focused on logos and images as her team redesigned the group’s monthly giving program. They tested six logos (like the one above) with appeals, only to find that potential supporters didn’t care. What mattered most to them? The charity’s messages about the good a monthly gift would accomplish and what it would mean to the donor.

“Just using quantitative data leaves the human element out of it, which for a charity is really important,” Ms. Choe says.

Challenge to Traditional Tests

The World Wildlife Fund is looking to the future by challenging the logic behind long-established A/B tests.

When an organization tests two direct-mail options, one is typically declared the winner, the other the loser. But that may not be smart, says John Schwass, director of fundraising operations and strategic analysis at the fund.

"Maybe it's not an either/or," he says. "Maybe it's that certain people are going to prefer a certain kind of message."

With that in mind, Mr. Schwass and his colleagues conducted a series of tests. The goal: create a model to predict which donors are more likely to respond to an appeal that emphasizes the organization’s mission work and which will be drawn to one that evokes pride in belonging to the group.

"That way you win with everyone," he says.

The tailored approach seems to be working. The response rate to the two messages has been as much as 30 percent higher than when the organization sent a single message to everyone.