Developing Your Nonprofit Funding Strategy

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The Bridgespan Group
Collaborating to accelerate social impact

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About The Bridgespan Group

The Bridgespan Group is a global nonprofit organization that collaborates with mission-driven leaders, organizations, and philanthropists, to make the world more equitable and just.

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A funding strategy is the approach that a nonprofit organization takes to financially sustain its operations and mission

At its core, an effective funding strategy is one that reliably provides the revenue needed to cover the organization's costs

Additionally, an effective funding strategy typically:

- Clarifies which funding opportunities are highest potential, and which are lower potential
- Identifies key payers (i.e., customers and donors), and understands why they fund the organization
- Defines the roles that staff and board members will play in raising revenue
- Sets funding targets that can be tracked over defined time periods

1. What is your organization's funding model today and what has it taken to bring in that money?
2. What might be the optimal one or two revenue categories for your organization's focus?
3. What capabilities do you need to successfully raise money from those revenue categories?

1

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To explore your funding model today, probe on revenue mix, funder motivations, plus your assets and capabilities

Revenue mix

- What is your revenue mix over the past five years? For your biggest revenue category, has the share of total been growing or declining?
- Is there another way to disaggregate the data to learn new things?
- How flexible is your funding? How much is tied to specific programs?
- For your major donors or customers, how long are they typically sticking with your organization? How did they first become engaged?

Funder motivations

- Why do your funders support the organization? Are they compelled by:
  - Mission
  - Population served
  - Track record
  - Relationships with your team
  - Opportunities to engage in the work
  - Other?
- How does supporting your organization help the funder to advance its goals? How does your organization fit into the larger set of organizations that the funder supports?
- How has the funder's interests changed over time?

Fundraising assets and capabilities

- Looking back, what assets and capabilities has your organization needed to raise the revenue that you bring in today?
- What is your organization really, really good at?
- Does the funding strategy align with the strengths and passions of your leadership team and staff?
- Where does your organization have weaknesses in securing revenue? Could these be tied to gaps in assets or capabilities?

Across categories, there are trends in common funder motivations, as well as the assets and capabilities that can be key to unlock funding

1

	Governments	Program Service Fees	Corporations	High-Net-Worth Individuals	Foundations	Small Gifts (<$10K) from Individuals
Common Funder Motivations	• Provide essential services to constituents • Federal funders often prefer project replicability and third-party evaluations • State and local funders often look for evidence of community support	• Demand for a product or service • Unmet needs • In some cases, customers' payment for a service comes from a third party such as Medicaid	• Create ties between the corporation's brand and a meaningful social cause • Motivate employees with volunteering and gift matching	• Build individual and/or family legacy • Find meaning and joy in deploying wealth to worthy causes • Invest in a personal interest or passion • Maximize tax benefits	• Invest in sectors and geographies that align with the foundation's mission and strategy • Achieve something distinctive over an extended timeline	• Contribute to a well-known cause, often in response to social media engagement or mail campaigns • Respond to urgent needs, such as a natural disaster • Maximize tax benefits
Assets and Capabilities	• Lobbying / government relations • Technical grant writing on RFPs and proposals • Contracting • Compliance and reporting	• Customer insights • Product development • Pricing • Marketing and sales capacity • Billing and payment infrastructure	• Board members with corporate connections • Branding, marketing, and communications • Employee volunteer opportunities	• Connections to wealthy individuals • Board of directors committed to fundraising and willing to make introductions • Major gift stewardship and solicitation	• Technical grant writing • Connections to program officers at foundations • Monitoring, evaluation, and reporting	• Strong brand awareness and widespread appeal • Marketing, digital advertisements and mail campaigns • Payment infrastructure

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Many organizations benefit from focusing on one or two categories of funding

2

What we've been told…

What the data says…

…"Diversify, diversify, diversify!!"

…Focus on a few categories of funding …and diversify within those

The next step in determining the optimal funding strategy is to develop a hypothesis of your organization's target revenue mix

2

- Using all the data that you gathered in answering question 1 (revenue mix, funder motivations, assets and capabilities), develop a hypothesis of what future mix of revenue (or "funding model") will sustain your organization
- Ideally, the target revenue mix is one that:
  - Gets as close as possible to being sustainable at the desired pace of organizational growth
  - Does not overly restrict the work that your organization is committed to doing
  - Provides a good longer-term return on investment over the cost of raising that revenue
- Explore being both proactive and opportunistic (or reactive)
  - **Opportunistic:** Carefully evaluate in-bound opportunities. What is the funding potential? Equally important, what will it cost to unlock the funding, considering staff time, travel, contractors, event costs, etc.? Does the opportunity draw on capabilities and assets that your organization already has? How likely is your organization to win the funding?
  - **Proactive:** What would it look like to "double down" on a funding category where your organization is already successful? Are there ways to proactively "dial up" the effort you are putting into areas where you are getting traction? Can you "make your own luck"?

The concept of a "major" and a "minor" can be useful for developing a hypothesis for your target revenue mix

"MAJOR" CATEGORY

Largest revenue category for your organization, and where your team will put the most effort at bringing in revenue

"MINOR" CATEGORY

An important, secondary category that will also contribute meaningful revenue, and where your team will dedicate some time

"OPPORTUNISTIC" CATEGORY

Revenue opportunities where you do not proactively dedicate time, but that you do pursue when they appear especially fruitful

To test your revenue hypothesis, explore peer benchmarking and interviews, funder conversations, and scans of the external environment

Peer benchmarking

- If similar organizations have secured significant revenue from the funding categories you want to focus on, it increases the likelihood that your hypothesis is feasible
- Probe on what the peer's overall revenue mix is, what changes in revenue have occurred over the past few years, and what the specific funding sources are, as well as how peers raise that revenue
- These can be investigated by looking at organizations' websites, annual reports, and press releases, and 990s

Peer conversations

- Peer conversations can help you learn about another organization's fundraising and the capabilities it has developed
- If it's challenging to connect with direct competitors, look at peers in a different geography or a different sector
- Usually, the most productive conversations will be two-way—sharing your experiences as you learn about those of your peer

Funder research

- Identify a funder that is attractive to your organization, and see if it is possible to learn what other organizations get supported by that funder
- It can often be valuable to talk to funders to get a better understanding of the kind of organizations they fund and why—and to test out your hypothesis with them

External environment scans

- Are new funding streams becoming available or are current ones drying up
- Is the environment around your program model changing in a way that might make it easier—or harder—to pursue a particular funding strategy

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At this stage of the process, it is important to get clear about what assets and capabilities are need to pursue a specific revenue categories

3

- What specific capabilities will it take to execute the new strategy? Reminder – refer back to the previous grid that outlines the assets and capabilities typically associated with raising a given category of revenue

- Which of these capabilities is your organization already good at? Which will it need to build or strengthen?

- How much will it cost to implement the funding strategy? Building capabilities may require hiring new staff, building new systems, or buying new technology. And it could take several years for added revenue to come online to pay for these investments.

- What is the opportunity cost of building new capabilities?

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As a final step, developing an implementation plan can help your organization to manage change and adapt overtime

3

An implementation plan can support organizations in executing the funding strategy. This plan can include:

> **Pilots**. Are there aspects of the strategy that you are not clear on, and need to test out? What tests can you design to gather data and learn more?

> **Costs**. What new capabilities, capacity or assets will you need for the plan to be a success, and what do those cost?

> **Staffing and accountabilities**. Who on your team will be accountable for what activities and results?

> **Role of the Board**. How can your Board of Directors play a role in ensuring success of the funding strategy?

> **Metrics**. What measurable outcomes do you hope to see, over what timeline? Are there intermediate indicators that you can track along the way, to show that the strategy is gaining traction?

> **Timelines**. How will change be sequenced? What results are expected, by when?

As you develop these plans, we suggest keeping in mind two findings:

1. It can take 18 to 24 months – or even longer – for a fundraising strategy to pay off or for you to understand that it may not work. Before making definitive decisions, explore if there has been enough time for the strategy to play out
2. The plan will likely need to be adapted as the strategy encounters real-world experience

Reminder, as you explore funding strategy, keep coming back to your organization's core mission

partners IN SCHOOL INNOVATION

"A rule of thumb is keep coming back to your core mission. We focus on program revenue and philanthropic support. We can find other funders, but if we stray too far from [our core mission], we find ourselves looking at working in places that aren't a good fit for us or what we're trying to accomplish."

DEREK MITCHELL, PHD, CEO OF PARTNERS IN SCHOOL INNOVATION

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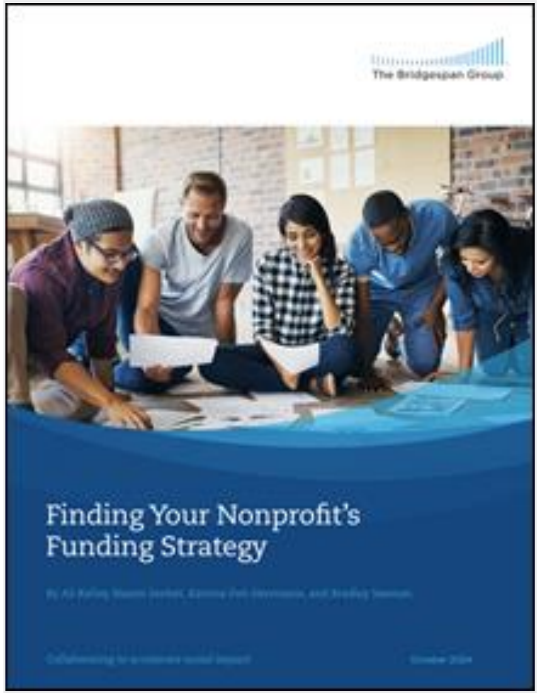
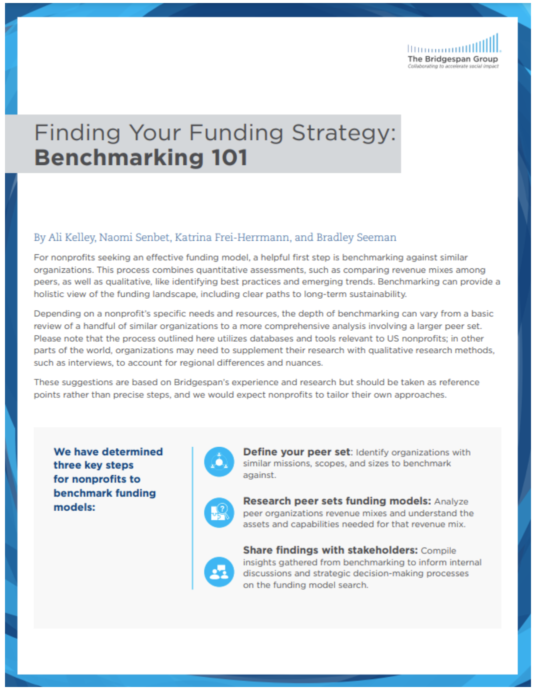
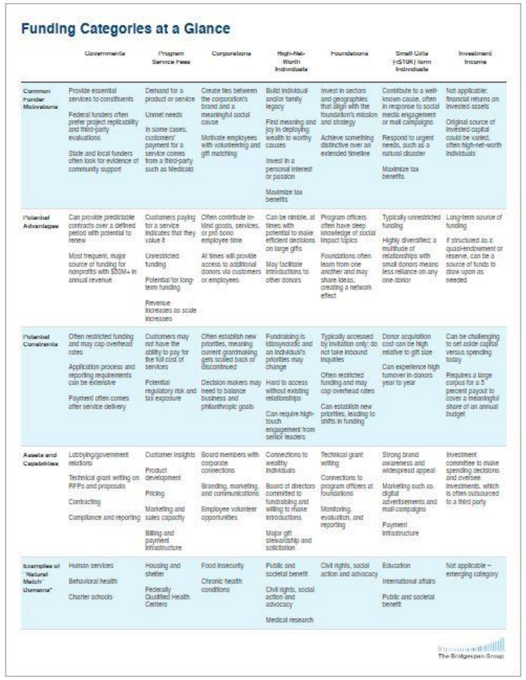
Nonprofit Funding Strategy Resources



[Finding Your Nonprofit's Funding Strategy]



[Finding Your Funding Strategy: Benchmarking 101]



[Funding Categories At-A-Glance]

[A New Look at How US Nonprofits Get Really Big]

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