

The Blackbaud Index Canada

Featuring *Giving in Canada Grows, Charities Face Challenges & State of the Sector*
BY TODD COHEN, FOUNDER, PHILANTHROPY NORTH CAROLINA

The Blackbaud Index-Canada

INTRODUCING THE BLACKBAUD INDEX-CANADA

Building on The Blackbaud Index, which debuted more than three years ago in the United States, Blackbaud has launched *The Blackbaud Index-Canada* to track charitable giving to the Canadian nonprofit sector, which represents one of the country's biggest industries.

A steady stream of professionals currently use the U.S. Index to help guide their fundraising planning, so Blackbaud's chief scientist and creator of the Index, Chuck Longfield, said that Blackbaud is pleased to now offer similar metrics on Canadian fundraising.

Going forward, *The Blackbaud Index-Canada* will be updated on the first business day of each month at www.blackbaud.ca/blackbaudindex.

Drawing from actual data from about 250 organizations that raise a total of \$600 million to \$700 million a year—or roughly six percent to seven percent of the Canadian market—the new Index will serve as a valuable resource for nonprofits and fundraising professionals.

Giving in Canada Grows, Charities Face Challenges

By Todd Cohen

Overall giving in Canada grew 2.7 percent in the three months ending February 2014, compared to the same period a year earlier, while online giving for the period grew 7.2 percent, according to *The Blackbaud Index-Canada*.

STATE OF THE SECTOR

The Blackbaud Index-Canada

Reporting Period (3-month rolling average)	Overall Giving % Change	Online Giving % Change	Reporting Period (3-month rolling average)	Overall Giving % Change	Online Giving % Change
FEB 13	0.0%	15.9%	SEP 13	7.1%	4.1%
MAR 13	1.7%	12.7%	OCT 13	5.6%	8.9%
APR 13	5.1%	3.5%	NOV 13	2.8%	13.6%
MAY 13	4.6%	3.5%	DEC 13	5.6%	10.1%
JUN 13	2.4%	10.5%	JAN 14	1.0%	6.8%
JUL 13	3.4%	10.9%	FEB 14	2.7%	7.2%
AUG 13	1.3%	6.7%			

Canadian charities with effective fundraising programs benefited from growing investment in fundraising staff and capacity, greater attention to major donors and donor loyalty, and increasing sophistication in fundraising technology and best practices.

But many Canadian charities face big challenges in securing the investment they need in their fundraising capacity, particularly in developing board leadership and staff expertise.

Strong Finish in 2013

After experiencing relatively flat growth during the first half of 2013, overall fundraising revenue among 276 Canadian nonprofits that together raised \$692.5 million per year grew 6 percent during the second half of 2013 when compared to the same period a year earlier, according to the new *Blackbaud Index-Canada*.

Online fundraising revenue for 219 Canadian nonprofits that together raise \$154.3 million per year online grew 8.9 percent, 13.6 percent, and 10.1 percent, respectively, in each of the three-month periods ending in October, November, and December, compared to the same three-month periods a year earlier.

That surge in overall giving represented a strong finish for a year in which Canadian nonprofits generally posted lower overall results for much of the year, compared to the previous year, said Longfield. “It does look like things are looking up in the Canadian market.”

Growth at year-end is especially good news, he said, because roughly a third of all charitable giving takes place in the final three months of the year, and roughly 25 percent of all giving takes place in December.

Overall giving for the three months ending in January and February grew 1 percent and 2.7 percent, respectively, compared to the same periods in 2013, while online giving grew 6.8 percent and 7.2 percent, compared to the same periods in 2013.

SECTOR SNAPSHOT

Canada’s charitable and nonprofit sector is the second largest in the world after the U.S. and consists of roughly 170,000 organizations, split almost evenly between registered charities and nonprofits, according to Imagine Canada, an umbrella organization for Canada’s charities and nonprofits.

The charitable sector employs two million Canadians and contributes an average of 7.8 percent to total gross domestic product.

Revenues from the “core” nonprofit sector—charities and nonprofits other than hospitals and universities—account for about 2.4 percent of Canada’s GDP, or more than triple that of the motor vehicle industry, Imagine Canada said.

Sales of goods and services account for 45.6 percent of total income for that core nonprofit sector. In comparison, the larger nonprofit sector—including hospitals, universities, and colleges—counts on

government funds for nearly 75 percent of its funding, with 72 percent of its overall funding provided by provincial governments, Imagine Canada said.

Hospitals, universities, and colleges represent only 1 percent of organizations but account for 66 percent of total revenues for the entire sector.

Sector “Mature,” “Conservative”

“Canada’s charitable sector is the second-most mature in its professionalism, use of investment in technology, and best practices” after the U.S. nonprofit sector, said Michael Johnston, founder and president of Hewitt and Johnston Consultants, a fundraising consulting firm in Toronto.

From small shelters to big national charities, he said, nonprofits are “becoming more professional and leveraging technology and best practices,” he said. “The sector is trying to do a more professional job, and I think it means charities are raising a bit more money.”

Fundraising Stability

Unlike the economies and charitable sectors in the U.S. and U.K., which slumped after the capital markets collapsed in 2008 and only recently have begun to rebound, the economy and charitable sector in Canada have held relatively steady, Johnston said.

That’s because, unlike the economies in the U.S. and U.K., the economy in Canada is based on commodities such as oil, gas, and diamonds that limited the damage of the recession, and because its banks are highly conservative, he said.

“That translates to the charitable sector,” he said. “It’s a very kind of stand-pat, very conservative, cautious sector, so we don’t see the kind of growth or rebound because everything is ticking along at a slow, conservative rate.”

Government Cuts

With government in Canada getting smaller, Johnston said, nonprofits are looking to private support for a growing share of their funding.

“Canadian charities, a lot of them historically, have received large proportions of revenue from state sources, and that’s shrinking,” he said. “It means a competitive fundraising environment will become more intense with less government support as individuals become more and more important.”

What Donors Want

A study released in February of this year by the AFP Foundation for Canada and market research firm Ipsos entitled “[What Canadian Donors Want](#)” finds a “high degree of confidence in charities.”

But it also said charities would be “well served” to make it clear they are “well managed and have the resources, competence and capacity to carry out their mission and plans.”

The study said arts groups may have “the longest road to travel to improve presence of mind and share of wallet;” that people increasingly give to fewer charities, with a plurality—the biggest single group—giving to two to three charities; and that charities should ask for bigger gifts and take a hard look at how frequently they ask for donations.

SECTOR CHALLENGES



Investing in Capacity

Canada’s charitable and nonprofit sector historically has “invested poorly in skills, human beings, and technology,” and charities now “need to step back and make longer-term investments to survive and thrive,” Johnston said.

“There’s such short-termism in Canadian charities to go after money in single donations,” he said. “But the donor expects more.”

Studies like [The Next Generation of Canadian Giving](#) of younger generations of donors, for example, show that they want “more specificity, more impact,” Johnston said. “They want more from a charity when they give, and that demands better communication, better skills to show impact, and better technology to allow them to better direct their gifts, and for the charity to show transparency.”

Growing Gap

Despite the sector’ stability, the gap is growing between, on the one hand, large- and medium-sized nonprofits that can afford the technology and manage the change needed to keep pace with evolving needs, and, on the other hand, smaller nonprofits that find it “more difficult to afford that help,” Johnston said.

Derek Fraser, chair of the AFP (Association of Fundraising Professionals) Canadian Council and president of iDoPhilanthropy in Calgary, agreed.

“The strong continue to be strong, and the weak try to compete within a very competitive marketplace,” he said. “We have small organizations that are not able to hire and resource their fund development activities to the level they need to be successful.”

Smaller nonprofits must compete with charity “Goliaths,” such as hospitals, educational institutions, and churches that traditionally have received more donated dollars, he said.

Still, he said, volunteers can be a valuable resource for smaller nonprofits.



Transparency, Accountability

Awareness about the need to be more transparent and accountable is growing among charities and nonprofits in Canada, Fraser said.

Spurring that growing awareness, he said, have been news reports of rule-breaking by an “extremely small

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percentage” of charities and nonprofits, by rankings from watchdog groups that track financial reports that charities submit to the Canadian Revenue Agency, and by expectations by donors for greater openness.



Postal Changes

Canada Post, which is now losing more than \$100 million per quarter and is looking at a billion-dollar-a-year loss by 2020 if it doesn't change its business model, is ending delivery to home mailboxes and instead will deliver residential mail to “superboxes” in every community and city, Johnston said.

That change is the “canary in the cage” for charities, representing a “warning about the future of mail in conjunction with other channels” for marketing and fundraising, he said.

SOLUTIONS FOR CANADIAN CHARITIES



Volunteer Leadership Key to Capacity

Key to building the capacity of charities is volunteer leadership that can “ensure that the financial resources are there for the organization to deliver their programs,” Fraser said.

“As at any company, you need sales people out there doing it for you,” he said. “But we don't take that view in the nonprofit sector, and we expect it to happen as if by magic. There is no magic wand.”

The solution for smaller charities, he said, is to have “realistic expectations for the scope of your organization and continue to be consistent in growing and not be expected to be able to leap to the success of a large organization. Organizations can crash and burn if they try to grow too quickly or not stay true to core values and who they are and the core constituency that supports them.”

Collaboration, Impact

The “What Canadian Donors Want” study found that three in four respondents want charities that address similar issues to look for ways to “work together and share plans and resources,” Fraser said.

And it underscored the fact that “Canadians have high standards for how charities operate,” he said.

A large majority of respondents, for example, believe charities should have a strategic plan, strive for rigorous standards to measure their performance, and invest in tools that show their impact on the community they serve or the cause they support, he said.



Integrated Fund Development

One effective strategy to address some of the fundraising challenges facing charities is to better connect fund development to programs, Johnston said.

That requires charities taking the time needed to integrate their programmatic work with their fundraising strategies, he said.

An organization that counts on volunteers to mentor kids, for example, traditionally may not have tied its work with volunteers to its work with donors.

To align those two activities and constituencies, Johnston said, an organization should pair staff who work with volunteers with staff who work with donors and show them the strategic connection between their respective jobs and clients, “because citizens don’t see themselves as a volunteer or donor—they see themselves as both.”

Among Canadian charities, he said, “best practices” in marketing and fund development involve “lifestyle planning for their constituents.” That means working with fundraising and volunteer staff to “plot out, from cradle to grave, how to take care” of donors and volunteers, he said.

“If we don’t do that in a more competitive and demanding environment, we don’t build deeper relationships, and we won’t move people up the donor pyramid from small gifts to ultimately larger gifts because we don’t meet their demands,” Johnston said.

“It’s all about being an intimate friend,” he said. “All that gets wrapped up in investing in technology, change management, an integrated shop, and in human beings who know how to do these things.”



Digital Fundraising

Canadian charities are on the leading edge of using digital technology in effective and innovative ways, experts say.

“The one place where the Canadian charitable sector punches above its weight is in peer-to-peer fundraising,” Johnston said.

An hjc and Blackbaud study last year, [The Next Generation of Canadian Giving](#), showed that the number of charity fundraising events, as well as per-capita giving and participation in fundraising events, is higher in Canada than in the U.S. or U.K., he said.

Canadian charities also are recognizing that smartphones offer a “rich multimedia experience,” compared to devices that simply offer a “text-to-give” option, Johnston said.

So charities are investing more in mobile technology (creating videos of client stories, for example) and in applications that let donors quickly give from their phones with a credit card or via PayPal® using an application or browser, he said.



Response to Postal Changes

In the face of changes by Canada Post, the best practice for nonprofit marketing and fundraising is to integrate email in combination with direct mail and phone calls, Johnston said.

Fraser said “a lot of organizations are going to have to look at whether we can afford to do direct mail anymore, or replace it with online strategies.”

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— Michael Johnston

The postal changes are “likely to drive a shift to email or online or digital fundraising.”

Ted Garrard, president and CEO of the SickKids Foundation in Toronto, said he does not believe the change will have too significant an impact and that he is more concerned about the rise in postal rates.

“The mail is still getting delivered, just not to somebody’s door,” he said.

The good news, he said, is that the postal changes represent “a very good opportunity for charities to redirect their relationships with direct mail donors to one that is an online relationship.”

Cause Marketing and Events

Cause marketing is growing as a fundraising strategy, as charities work with corporate partners with “brands that are well known and partnerships that can help each organization,” Fraser said.

Helping to drive that strategy is “fatigue around direct mail,” which “continues to be an expensive methodology to acquire donors,” as well as the changes by Canada Post, he said.

And fundraising events, “even though they take a massive amount of time, are still very effective at getting new people in your door to find out about you,” Fraser said.

Calgary, for example, has been having more charity events than ever, he said.

And once they get people “in the tent” at events, he said, charities can maintain relationships with them through digital strategies.

A CLOSER LOOK

SickKids Foundation

One organization that has successfully addressed the challenges facing charities is the SickKids Foundation, which has raised more than \$100 million a year from over 300,000 donors for The Hospital for Sick Children—the second largest-donor base of any hospital foundation in North America.

Keys to fund development at the SickKids Foundation are investment in staff, diversification of fundraising programs, a heightened fundraising role for the CEO, and a focus on major individual giving, planned giving, and direct marketing, Garrard said.

Staff Capacity

The SickKids Foundation looks for professional staff with “strong track records in fundraising, marketing, or other associated disciplines,” Garrard said. “We will pay them in the 80th percentile of salaries for comparable positions so we can attract and keep them.”

The Foundation also invests in employees' growth by allocating the equivalent of 2 percent to 5 percent of their salaries in professional development activities, plus offering a formal mentorship program that

trains more senior employees to be effective mentors and then pairs them one-on-one with selected staff members who opt to participate.

Of the Foundation's 160 employees, about 40 percent are fundraising professionals. And the staff has grown about 30 percent over the past five years through "strategic investments in fundraising areas we've identified for growth," Garrard said.

Diversification

Diversification of fundraising programs—from the annual fund and events to major giving, planned giving, and capital campaigns—is essential for any medium or large charity, Garrard said.

That approach is needed both to offset challenges to any single program when any segment of the economy underperforms, he said, and to help migrate donors from one program to another "as we manage the lifecycle relationship with the donors."

One strategy at SickKids Foundation, for example, is to work with donors who first give through direct marketing channels and develop them into major gift donors "once they exhibit loyalty and capacity," Garrard said.

Using the same approach, it also works with event participants to develop them into monthly donors serviced through direct marketing channels.

Data Analytics, Sharing

A key to moving donors up the giving pyramid at the SickKids Foundation is the analysis of metrics and sharing that data between the organization's various fundraising programs to help determine which strategies work within each program.

And a key objective in each fundraising channel is the retention of donors, said Garrard.

"We invest in the capacity of technology and professionalism and strategies to keep donors loyal through stewardship, engagement, and a clear demonstration of impact," he said. "We set retention targets in each of our programs and strategies to retain donors in those segments as a key focus of our work."

Growth Areas

Fundraising programs that have grown at the SickKids Foundation include major and planned gifts; events; stewardship and donor relations; and information technology and data analysis.

Over the past five years, for example, the share of overall revenue from major individual giving and planned giving has grown to half from a third.

Major Gift Culture

Supporting that growth has been an increase in staff and in contacts with major donor prospects, as well as a "renewed major gifts culture" led by Garrard, who joined the Foundation as CEO in July 2009, after

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...serving as vice president for external affairs at The University of Western Ontario, where he raised more than \$600 million in 14 years, and before that as campaign director at United Way of Greater Toronto, where he raised more than \$200 million over five years.

“I was brought in, in part, to really elevate major gifts to this organization,” Garrard said.

Each year, starting in his second year at the Foundation, he said, he has secured gifts of \$30 million \$40 million, \$20 million, and \$40 million, respectively.

“We have a real focus on the CEO playing a relationship role in setting a major gift culture,” he said, “and being personally responsible for attracting transformational gifts.”

Direct Marketing

The SickKids Foundation has built its direct-marketing portfolio through strategies such as door-to-door, direct mail, digital, and social-media campaigns, and “direct dialogue” programs aimed at speaking to people in public locations like airports and shopping malls and trying to sign them up as monthly donors.

Direct marketing efforts alone in the fiscal year ending March 31 raised \$27 million, exceeding the goal by \$2 million.

Donor Loyalty

Donor loyalty is essential for a successful fundraising program, Garrard said.

“It’s far easier to raise funds from a loyal donor than it is to attract new donors,” he said. “So focus on the donor experience and renewal of that support.”

The annual retention through direct marketing at the SickKids Foundation is 85 percent, which is much higher than the industry rate for charities, Garrard said.

In comparison, only 43 percent of 1.8 million people who donated to 2,342 nonprofits in 2009 gave again to the same organizations in 2010, according to a policy brief that reported findings from the Fundraising Effectiveness Project and was published in January 2013 by the Center on Nonprofits and Philanthropy at the Urban Institute in Washington, D.C.

“These are small donors continuing through programs like direct mail and telemarketing where you’d expect a high rate of attrition,” Garrard said of donors at the SickKids Foundation.

The Foundation helped achieve its high retention rate, he said, by “encouraging most of them to get involved with monthly giving by a pre-authorized credit card.”

Lessons for Nonprofits

However large or small a charity or nonprofit, Garrard said, effective fundraising requires a “clear mission for your organization” and “a very good case for support as to why you should be a charity of choice.”

Charities also need “an engaged board that will help you in your fundraising,” and a “real focus on the fundraising programs that are going to deliver results,” he said.

While large organizations benefit from diversified fundraising programs, for example, smaller organizations “shouldn’t try to do everything under the sun,” he said. “They should focus on one or two programs that will have the likelihood to generate the majority of their resources.”

It also is important to hire staff leaders who are “able to propel your fundraising and to engage in best-practice donor engagement and stewardship,” he said.

And smaller charities do not need to look within their own rosters to help staff with mentoring.

“It doesn’t have to come from within the organization,” he said. “It can come from outside. AFP or AHP [Association for Healthcare Philanthropy] can create those mentorship opportunities.”

About Blackbaud

Serving the nonprofit and education sectors for 30 years, Blackbaud (NASDAQ: BLKB) combines technology and expertise to help organizations achieve their missions. Blackbaud works with more than 29,000 customers in over 60 countries that support higher education, healthcare, human services, arts and culture, faith, the environment, independent K-12 education, animal welfare, and other charitable causes. The company offers a full spectrum of cloud-based and on-premise software solutions and related services for organizations of all sizes including: fundraising, eMarketing, advocacy, constituent relationship management (CRM), financial management, payment services, analytics, and vertical-specific solutions. Using Blackbaud technology, these organizations raise more than \$100 billion each year. Recognized as a top company by *Forbes*, *InformationWeek*, and *Software Magazine*, and honored by *Best Places to Work*, Blackbaud is headquartered in Charleston, South Carolina and has operations in the United States, Australia, Canada, the Netherlands, and the United Kingdom. For more information, visit www.blackbaud.ca.

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