



Talking Points

CBC Article: “Charities paid \$762M to private fundraisers.”

The Scope of Telemarketing

- Telemarketing is an important aspect of fundraising for some charities, but it is not widely used. According to AFP’s recent State of Fundraising Survey-Canada, only a quarter of charities used telemarketing in 2009.
- In addition, telemarketing does not produce significant revenue for most charities. According to the State of Fundraising Survey-Canada, 70 percent of respondents that employed telemarketing generated just 10 percent or less of their annual donations in 2009 from telemarketing appeals.
- Because of the high cost associated with telemarketing, most charities only use this method of fundraising for upgrading or gift renewals.
- The article states that from the 2004-2008, charities paid \$762 million to third-party fundraisers, or more appropriately called, solicitors. However, the article compares that total to annual giving in one year, which it states is \$8.2 billion. The comparison is inaccurate. Roughly estimating that overall giving from 2004-2008 (based on Canada Revenue Agency data) was \$35 billion, payments to solicitors equaled just two percent of all charitable giving.

The Role of Telemarketing

- Telemarketing can be an important fundraising tool for some organizations to raise awareness about their organization and cause, and identify new donors who will hopefully turn into contributors that give every year.
- Telemarketing is one of the most expensive ways to raise funds. If it is being used for donor acquisition purposes it will most likely not make money—in fact most charities using this type of solicitation will lose money in the first year or two until a group of recurring donors is identified and solicited to every year.

AFP Talking Points: “Charities paid \$762M to private fundraisers.”

- Other types of fundraising are far more efficient than telemarketing, including direct mail, major gifts and planned giving. Most charities use a mix of these fundraising techniques to reach out to different donors and keep costs down.
- Telemarketing is a good and respected way of raising funds. However, some telemarketing arrangements involve percentage-based compensation, whereby the solicitor receives a percentage of each contribution given. Percentage-based compensation, and the use of commissions, is unethical according to the *AFP Code of Ethical Principles and Standards*. Charities should not be paying solicitors via percentage-based compensation, and donors should not be giving to charities that do.
- AFP recommends that third party companies such as telemarketing firms be paid on a flat fee basis or by the number of donors acquired, upgraded or a combination thereof.

The Role of the Canada Revenue Agency (CRA)

- The CRA has the authority to monitor charities and crack down on contracts like the ones mentioned in the article. In fact, every issue and contract discussed in the article falls under the CRA's purview, and it has the tools to go after these types of contracts. The CRA would never allow the telemarketing solicitor contracts that were identified in the article.
- To help guide charities and its own regulatory work, the CRA drafted a fundraising cost guidance policy. The CRA states that charities should have fundraising costs of no more than 35 percent. Charities with costs over 50 percent will warrant an automatic review of the charity by the CRA.
- However, fundraising costs are one of many factors that should be considered when reviewing a charity. As stated in the CRA guidance itself, “[f]undraising ratios alone are not determinative in assessing whether a charity's fundraising complies with the requirements of the guidelines in this guidance.” Other important factors taken into consideration by the CRA include use of commission-based compensation (a compensation regime that is prohibited in the *AFP Code of Ethical Principles and Standards*), the size of the charity, charitable causes with limited appeal and organizations' internal fundraising evaluation processes.
- AFP helped develop the CRA fundraising cost guidance and will continue to work with the agency to ensure that charities understand fundraising guidelines and comply with the law.

Professional Fundraiser vs. Professional Solicitor

- An overwhelming majority of professional fundraisers work directly for charities and are involved with a variety of activities, including donor relations, marketing, advertising, special events and ethical stewardship. More than 95 percent of AFP's membership work directly for charities. The remaining members work as consultants and help plan campaigns or run for-profit soliciting firms.
- A solicitor is focused solely on the gift, trying to get the donor to give as much as possible, and typically works for many charities and or for profit companies. The professional fundraiser's focus is on the organization's mission and seeks to develop relationships with donors who believe in the mission. Through these connections with donors and volunteers, professional fundraisers are able to build the capacity of their organizations to sustain themselves and achieve their missions.
- Another distinguishing factor is the professional fundraiser's level of education and commitment to ongoing education and professional development. The fundraising profession has different types of credentials and is focused on ethics through various codes of ethics, the *Donor Bill of Rights* and appropriate enforcement processes.

Fundraising Costs

- Charities work hard to keep costs down as they are very mindful of the need to advance their mission, and they are keenly aware of the public's interest in this issue and retaining public trust and confidence in their respective organizations. It is ludicrous to suggest that simply because one charity engages in a big campaign with lots of costs that other charities immediately copy it.
- Donors should recognize that there are legitimate costs associated with administration and fundraising, and no charity can escape these costs. Consider the following factors when evaluating an organization's administrative cost percentages and their return on investment in fundraising:
 - 1) **The nature of the cause.** Some causes are more popular than others and thus find it easier to raise funds. A children's hospital may be able to raise funds more easily than a program for rehabilitation of offenders. As a result, the cost of fundraising will tend to be higher for less popular causes.
 - 2) **The ways in which a charity asks individuals for support.** Most organizations use a range of fundraising activities in order to reach the broadest possible audience for their cause. It is more costly to acquire new donors through a mail appeal than to obtain contributions from donors who have given in the past. A special campaign to seek donations for a new building is likely to generate larger average gifts than other types of campaigns. Special events and telemarketing may be more costly than other

AFP Talking Points: "Charities paid \$762M to private fundraisers."

- types of appeals, but they are an important way to create and maintain relationships with donors, prospective donors and volunteers.
- 3) **Sources of fundraised income.** If a charity receives most of its money from wealthy individuals, companies, foundations and government sources that make large gifts and grants, the fundraising cost percentages are generally lower. However, many charities rely on donations from individual members of the public who make much smaller gifts. In these cases, the cost percentages tend to be higher. Advertising, mailing and database management require a large investment of resources. An organization located in an affluent region might receive larger gifts and a higher return on investment than one located in a less affluent area. Competition from other organizations in a community might lower the potential number and size of gifts. Land conservation organizations making large real estate transactions will have a smaller relative cost for their fundraising expenses.
 - 4) **Maturity of an organization and its development department.** A small organization beginning to fundraise for the first time, or a larger organization moving into new areas of fundraising, will take time to develop its track record. The experience level of development staff can also affect fundraising outcomes.
 - 5) **Size of organization.** Larger organizations may be able to operate more efficiently than smaller ones because they use a range of fundraising activities and can implement economies of scale that are not available to smaller organizations. One might expect a major national charity, for example, to have a higher return on investment than a regionally based hospice.
 - 6) **Use of volunteers.** Volunteer fundraising has proved to be very successful for almost every type and size of not-for-profit charitable organizations. Given that one definition of philanthropy is “voluntary action for the common good,” AFP advocates that volunteer involvement is crucial to the success of most not-for-profit charitable organizations. Successful charities usually have a history of using volunteers to fundraise. Although there are costs related to volunteer development, use of volunteers can often reduce overall fundraising costs.
 - 7) **Averaging costs.** Many organizations calculate fundraising costs using rolling averages over a period of three to five years. This reduces the impact of any one significant spike or dip in any given year.
- Transparency is critically important and donors should feel comfortable asking the important questions. While the cost of fundraising is important, it gives a donor no real insight into whether the charity is fulfilling its mission and achieving its stated outcomes. That is an even more important question – what did you achieve with my gift? Focus should be on effectiveness. Donors want to know how their giving is actually making a difference.

Wise Giving

- Take your time in making giving decisions and resist high-pressure appeals. The faster the sales pitch, the more you should just say no.
- Don't be fooled by charities with worthy-sounding names, or names that might sound similar to other organizations. Some questionable charities create names that are intended to sound like other well-known charities and mislead potential donors.
- Know the charity you are considering supporting. Ask the charity to send you a brochure or other published information. If the response is slow, reluctant or not forthcoming at all, consider a different charity.
- Before making a gift, offer to volunteer your time to learn more about the organization and how it is run. If the response is less than enthusiastic, or you don't like what you find, consider looking elsewhere to donate your time and money.
- If you're contacted by a telemarketer, ask if he or she is working for a percentage of the funds raised, is paid a set salary or fee or is a volunteer. Don't be afraid to ask this question directly and if this question can't be answered, hang up the phone. If the telemarketer is taking a percentage of funds raised, hang up the phone. Percentage-based compensation is considered unethical.