

# *DIRECTIONS IN DEVELOPMENT*



A PERIODIC BULLETIN OF INFORMATION AND COMMENT ON PHILANTHROPY BY BARNES & ROCHE, INC.

*Vol.27, No.1  
February 9, 2009*

## ***CAPITALIZING ON CREATIVE DESTRUCTION***

Economists call it *creative destruction*. This is the notion that, historically in the United States, every downturn has ended with recovery. And that often what arises out of the crisis is better than what was before.

Joseph Schumpeter coined the term in 1942 as a way to describe how new businesses and technologies replace older, less efficient ones. It was Schumpeter's observation that the "process of creative destruction is the essential fact about capitalism."<sup>1</sup>

And so it is that, while we recognize the significant financial distress for many in our country at the moment, and do not in any way want to diminish our support of our clients who are facing economic uncertainty and perhaps hardship, our thoughts at Barnes & Roche turn now to how to weather the current crisis and prepare for the opportunities that will invariably follow.

From the consulting team at Barnes & Roche, following are a few observations and recommendations to help you manage through this extended time of economic uncertainty and use it as a catalyst for higher productivity and results in the better times that lie ahead.

### ***1. ACT ON SUCCESS, RATHER THAN LAPSE INTO PARALYSIS***

Throughout academia and the cultural world, continued uncertainty over the course of the economy – a time line for its stabilization and return to growth – is producing a wide range of reactions, from institutional paralysis to constructive action, depending on the particular institutional situation and the experience of the professional and volunteer leadership. The key we believe is to act on what has proven to be productive, rather than discontinue programs out of fear of failure.

## ***2. CONTINUE TO ASK FOR MAJOR GIFTS, BUT CAREFULLY***

No getting around it, major gifts are in decline. New six- and seven-figure commitments have slowed dramatically. However, there continue to be those unique personal/institutional situations where six-, seven- and even eight-figure gifts are still being made. Some donors have noted that they will require additional time to complete outstanding major commitments but will sustain their annual support. We recommend that you continue to ask, but ask carefully. Flexibility and sensitivity are paramount, and waiting longer, and continuing conversations, may ultimately yield a larger gift.

## ***3. GROWTH IN FUNDRAISING WILL STALL IN 2009, SO WORK HARDER TO REMAIN A RECIPIENT***

The *CASE Fundraising Index* forecast updated 1/16/09 indicates a slippage from a revised growth rate of +.03% for calendar 2008 to -1.7% projected rate of growth for calendar 2009.<sup>ii</sup> This projected decline would represent one of only three declines in the past two decades, including 3.5% in 1987-88 and 1.2% in 2001-02. In the past two decades, the average annual rate of growth has been 7%.

In tough economic times, donors tend to reduce the number of charities they support rather than decrease the amount they give to their top charities. Work to remain one of the receiving charities by maintaining personal connections. Visit, call, and thank.

## ***4. FOCUS ON ANNUAL GIVING, AS IT IS HOLDING ITS OWN AT MOST INSTITUTIONS***

While experiencing a decline in the number of donors, we are finding that many Annual Funds are experiencing an increase in the average gift and, in selected instances, the total dollars. There has been a significant decline in the number and dollar value of gifts of securities at year-end, with individuals noting there was no tax incentive for them. Those same donors, however, indicated that they would be making a gift of the same or greater amount at the start of the year. In most instances where gifts have been received this has proven to be the case. We note also a clear trend toward more designated annual gifts.

Every appeal, no matter how brief, should contain some element of the case for support. Tie your Annual Giving program to strategic priorities, and stay focused on the highest priorities. Analyze Annual Giving donor trends to understand better who gives during a downturn. Segment messages and delivery methods for the greatest impact. Revisit traditional timing of mailings, phone calls, etc. as those times may no longer be appropriate. Consider multi-year reunion gifts and challenge gifts to excite giving. And now more than ever, evaluate results to allow for outcome-based planning and the ability to report to donors the real impact of their continued support.

## ***5. CURRENT CAMPAIGN COMMITMENTS ARE LESS THAN INSTITUTIONS — AND DONORS — WOULD LIKE THEM TO BE, SO BE FLEXIBLE***

At institutions in the midst of public phases of a campaign, solicitors are being told by solid prospects that any commitment made now will very likely be less than either the institution or the donor would like it to be.

In most situations, knowledgeable volunteers and professional staff are taking the position that they will work with the prospect to achieve their mutual goal of what is best for the institution, even if that means deferring a decision. Stand by your donors, listen, and remain flexible to honor their intent.

## ***6. PUT A SPOTLIGHT ON YOUR PLANNED GIVING PROGRAM***

We are beginning to see a greater use of planned giving, particularly bequest commitments, being integrated with outright gifts. We have reason to believe that this will continue to be the case even as the economy recovers, reflecting a return of the “depression mentality” over the next five to ten years. We have also begun to observe the emergence of non-traditional giving vehicles such as program related investments (PRIs) loaning funds at low interest rates to subsidize immediate institutional needs.

Illustrate the positive impact of income from endowment and think creatively about working with donors to leverage planned gifts to meet more immediate needs. Bequests are the most attractive tool in many current situations, so play up this feature of your program.

## ***7. REVISIT YOUR STRATEGIC PRIORITIES, AND POSSIBLY YOUR CONSTRUCTION COSTS***

The press of the financial situation is forcing many institutions to rethink the relative priority of identified needs, as well as the policies governing investments and the draw down and use of endowment income. Even for those institutions opting to stay the course with proven investment strategies, the emphasis is on programs and people (e.g., financial aid), resulting in delays on facilities and expansion plans.

If your institution is in the midst of a capital project, the economic downturn likely presents an opportunity for lowered construction costs. If this is the case, consider approaching select donors about helping with high priority facility needs. It may simply be a bargain to move ahead in this economy.

Regardless of the particular priorities, institutions with solid strategic planning are better positioned to weather this uncertain time. You will likely need to make hard choices, but stay focused on the core mission of your organization and the highest priority activities to meet that mission. Plan, evaluate and prepare for the future.

## ***8. DON'T LET PANIC LEAD TO REACTIONARY BUDGET CUTS***

Some younger and less experienced administrators and even Board members are having a difficult time accepting that the seeming endless streams of funding that they have grown accustomed to are drying up. This is leading some to propose and/or implement draconian approaches to across-the-board budget reductions rather than selective realignment. The results are often dramatic reductions in the staff and operations of income-producing sectors – development and recruitment.

We recommend strongly that you focus on outcome-based planning, analyzing as specifically as possible the amount of return for each dollar spent. With budgets getting tighter, development budgets are receiving increased scrutiny, so stay a step ahead with results-based decisions that may justify increased investment in your program.

## ***9. MORE EXPERIENCED LEADERSHIP IS FOCUSING ON STRATEGY AND PLANNING***

More seasoned leadership is recognizing both the challenges and opportunities presented by the current situation, with the need for contingency planning and short-, intermediate- and long-term strategies and plans of action. We suggest a fundraising strategy along the following lines:

***Short term (6 to 12 months)*** – Emphasis on Annual Giving, with strengthened case for support, use of designated giving, ‘lybunt’ and ‘sybunt’ retention, reunion and special project giving programs, “target of opportunity” cultivation and solicitation, bequest and planned gifts, and focused stewardship

***Intermediate term (12 to 18 months)*** – Building relationships, strengthening communications programs, institutional planning and priority setting that is tightened to reflect “biggest bang for the buck” in meeting present challenges, shifting of major gifts focus to special projects, developing contingency plans that position staff, systems, volunteers and programs for action in 12, 18, 24 and 36 month time frames

***Longer term (18 to 36 months)*** – Put in place all the components to be ready to undertake active campaign when economy turns in next 18 to 36 months, evaluate and resolve the possibility of lowered goals, balance between outright and deferred gifts with extended payout periods

## ***10. AND DON'T BE AFRAID TO RELY — PERHAPS SELECTIVELY — ON COUNSEL***

The job of counsel is to help plan responsibly, with controlled optimism, for the best interest of your institution. We help to establish and monitor prudent benchmarks, keep the long-term strengths of the institution in focus, and guide against sacrificing the future for immediate relief or merely a sense of doing something. Now is the time for experienced, business-like judgment, strengthened relationships at all levels, an eye for targets of opportunity, and communication and transparency.

Counsel also brings that critical balance to bear on program evaluation – objectivity, but with an appreciation for the nuances and traditions of the institution. As we have emphasized herein, we believe that the key to positioning your institution to capitalize on the opportunities that lie beyond the current crisis is through careful, thorough evaluation of existing programs. It is only with a detailed understanding of results, strengths and weaknesses that meaningful steps can be taken to shed the unproductive in favor of the efficient and to pave the way for the recovery and growth that will eventually follow the current cycle of *creative destruction*.

Please call us for more information about program evaluation and analytical audit support, and for details about any of the recommendations made in this edition of *Directions in Development*.

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*Barnes & Roche, Inc. provides consulting services across a spectrum of development activities, including program audits and consulting, campaign planning studies, feasibility studies, annual fund consulting, prospect screening and research, executive search, systems, case statements, communications plans, and other related services.*

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<sup>i</sup> Financial Times, “Surviving and Thriving During Creative Destruction,” First Financial Group, January 2009.

<sup>ii</sup> Press Release, “Fundraisers Forecast Slight Decline in Giving to Education in 2009,” Council for Advancement and Support of Education, January 16, 2009.