

Wealth and Philanthropy in America

Target Affluent Prospects to Sustain Your Annual and Major Gift Programs

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THE DEFINITION OF INSANITY

Albert Einstein said “The definition of insanity is doing the same thing over and over again and expecting a different result.” Think about this quote for a minute and ask yourself, does this apply to the way you prospect for major and planned gift donors?

It’s a common practice among development professionals to collect lists of the “movers and shakers” and high-profile family foundations with the goal of finding contact points and building relationships with these very generous people. I’ll be honest and admit that I’ve done this! On a few occasions, my efforts paid off and I was able to establish new relationships and ongoing gift opportunities, but, more often than not, my efforts proved futile. Most, if not all, of these community philanthropists had already committed their time and resources to causes they selected many years ago and my organization was not among them.

There were plenty of days when my frustration level was high because I wasn’t achieving my objective. While I never reached the level of insanity I realized that I was, in fact, hoping for a different result. It’s easy to fall into this routine of making lists and looking for connections with the wealthy. Their names are known to us and their generosity has a major impact for some organizations. We want to be part of the group. But hoping that a miraculous event will occur and that suddenly their philanthropic interests will include us may be bordering on the precipice of insanity.

Instead of traveling down that same path over and over again, let’s take a look at a different prospect group. Hiding within your donor lists are people equally as generous – equally as capable of making a significant difference at your organization. You may not have had the tools or the knowledge to find them in the past – but things have changed. Philanthropic profiles can help you find and cultivate prospects that were previously unidentified. They are the affluent and together with those considered rich provide more than sixty-five percent of all charitable gifts given in the U.S. annually.¹

You have the ability to find these prospects and to focus your efforts on building relationships with these people whose philanthropic giving you may not yet have explored. Let’s take a closer look at the affluent: who they are, their charitable giving patterns and how you can identify them within your existing constituency.

WHO ARE THE “AFFLUENT” IN AMERICA TODAY?

The richest of Americans are defined as the wealthy. They are the top 1% with household incomes in this country which commonly exceed \$500,000 annually. As a group they account for between 25 and 35 percent of all charitable gifts in the U.S.² Within your own community, these are the “movers and shakers” you already know.

+ Executive Summary

The names of America’s wealthy are known to most of us: Bill and Melinda Gates, Warren Buffet, and the (Sam) Walton family members, to name just a few. Their philanthropy is legendary, and many nonprofit organizations’ staff and leadership look for ways to connect with them. A few—very few—will succeed. What options does your organization have to acquire major and planned gifts if you aren’t on the short list? Turn your attention to cultivating prospects who are affluent versus wealthy. The affluent market has been one of the fastest growing in America for more than two decades. It has been estimated that by the year 2010, more than 19 million households in the U.S. will be affluent. Through consistent and meaningful communications with affluent prospects within your constituency, you can strengthen and grow your annual fund and your major donor base.

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The affluent however, are households with an annual income slightly less than \$100,000 or net worth of around \$1 million. In 2001 more than 20% of households in America were near or exceeding this mark. There has been huge growth in the past few years and nearly 9.3 million, or 7 percent of all households, are considered “millionaires”.³

In 1996, “The Millionaire Next Door”⁴ was defined. He was a 57-year old, married man with three children. He was often a self-employed business owner, farmer or contractor with a median household income of \$131,000 and was the first in his family to achieve the status of affluent. Over the succeeding years, the portrait of the affluent has been changing. Increasingly, he is younger and more likely to be an entrepreneur in technology, real estate, athletics, entertainment or a corporate leader. He might be a minority and he might be a she. In future papers in this series, we’ll focus attention on these unique groups including women and ethnic minorities and separate out their similarities and their differences as up-and-coming philanthropists.

Many millionaires consider themselves conservative investors and have created their fortunes through the long-term accumulation of assets. Nearly half are retired although the average age still hovers around 58-years old. Over two-thirds of these households own stocks, bonds and mutual funds and nearly half own investment property including second homes or rental property. Their average net worth is just over \$2 million but only around \$1.4 million of those assets are liquid or investable.

GIVING PATTERNS OF THE AFFLUENT

Now that you have a better picture of some socio-demographic indicators of the affluent, let’s take a closer look at their giving patterns. There is a clear division of philanthropic priorities when it comes to the affluent. Their giving patterns differ from the general public and they tend to more generously support some sectors over others. Arts and Culture, Health, Education, and Environmental and International Affairs organizations receive well over half and possibly as much as 95% of their annual revenue from affluent households. Conversely, just half or less than half of giving to Human Services and Religious organizations is from affluent households. The following chart shows the breakdown of giving by the affluent to six charitable sectors.

Percent of Household Giving to Sectors by Income Group⁵

Annual Household Income	Arts	Education	Environment; Animals; Int’l Affairs; Other	Health	Human Services	Religion
Less than \$100,000	4.4%	5.9%	31.4%	13.8%	49.1%	59.4%
\$100,000 or more	95.6%	94.1%	68.6%	86.1%	50.9%	40.6%

When it comes to helping society, both historical and recent giving studies show that giving by the affluent, along with the wealthy, is less effected by economic downturns than the general population. Funding commitments to organizations often stay steady and in some instances



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With more than 20 years of legal and nonprofit management experience,

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grows. The desire to keep community resources intact and to help others in need is of particular concern to these people.

If you do nothing more than obtain income information about your donors you will have started to define those who are affluent and those who may not be. However, the more you know about your organization’s particular donors, the more effectively you will be able to define and cultivate your unique affluent prospects. Armed with the simple profile developed herein, you can start to compile the data you need to identify and cultivate them for upgraded or major gifts. Take a moment now to determine what data your organization already knows and houses in your internal database. Also ask yourself if there are data points that you do not yet know but should acquire?

- Age of prospect or head of household
- Marital status of prospect
- Gender of prospect
- Ethnicity of prospect
- Annual income of prospect or household
- Corporate connection of prospect or identified as retired
- Approximate wealth or identified assets other than primary residence of household

One efficient way to obtain this information is to purchase it. Various vendors offer such data appends including Target Analytics Data Enrichment Services.

AFFLUENT DONORS HAVE MORE THAN ONE GIVING “POCKET”

Affluent donors tend to use alternative giving vehicles in addition to personal giving. The establishment of family foundations and donor-advised funds saw a significant rise through the late 1990’s. While it is still a popular giving vehicle, new foundations are being created today at less than half their highest rate. In 2004, the Foundation Center counted more than 33,000 foundations with measurable donor or family involvement.

As a group family foundations provide around 68% of all foundation giving but more than half of these foundations make grants of less than \$50,000 annually. Even so, giving from family foundations continues to increase and giving patterns closely follow the interests of their creators. As we saw previously, most giving goes to Health, Education, Arts and Culture and also Human Services.

Percent of Giving to Sectors by Family Foundations⁶

Sector	% of Giving for Grants of \$10,000 or more	% of Grants Awarded at the \$10,000 level or higher
Health	30%	12%
Education	25%	22%
Arts	12%	17%
Human Services	9%	26%
Religion	6%	5%

Foundation grants tend to favor gifts to support programs (50%) while other areas receive much less: operating (20%), capital projects (18%), research (8%) and student aid (4%).

Donor-advised funds are most accepted by the younger affluent who see them as a way to accumulate giving dollars over time. These easy-to-establish charitable gift funds are maintained and managed by a third-party such as an investment firm or another charitable organization. While they are growing in popularity donor-advised funds remain largely untapped by development professionals. Fidelity Charitable Gift Fund, one of the largest managers of donor-advised funds, reports that it established 2,300 new accounts in 2007 alone.⁷ The minimum annual contribution to a fund is \$5,000 and gift distributions lower than \$100 are not permitted. In the same year, Fidelity distributed more than \$850 million to nonprofit organizations from donor-advised funds.

Because these funds operate very differently from family foundations many organizations do not tend to seek gifts from donors who have them. Donation directives were made when the fund was established and your organization may not have been on the list. But this doesn't necessarily dictate future distributions. Letting your affluent donors know that you accept grants from donor-advised funds should be part of your solicitation message.

Simple conversations with your prospects and donors can reveal a lot of useful information. In addition to asking questions about your prospects' programmatic interests, you should also inquire about the various giving vehicles that they use to make charitable gifts along with their donation objectives. Most donors are honored that you are taking the time to understand them and will openly discuss their giving methods with you.

To take advantage of this person-by-person information, you'll need to make certain that your internal database is capable of recording this donor-specific data. Additionally determine if you can record the answers to the following questions or will you need to first establish new fields before you capture the responses?

- Does the prospect have a connection with a Family Foundation or Foundations? If so, can you link those records?
- Has the prospect established a donor-advised fund?
- Has the prospect indicated an interest in:
 - Programs?
 - Operating support?
 - Capital projects?
 - Research?
 - Student aid/Direct aid?
- Does the prospect support organizations whose mission is primarily related to:
 - Arts & Culture?
 - Education?
 - Environment, Animals, International Affairs?
 - Health?
 - Human Services?
 - Religion?

You can get help gathering philanthropic data including gifts to other organizations, giving interests and foundation connections and through prospect research services that are widely available.

FINDING THE AFFLUENT IN YOUR DONOR BASE

Regardless of the charitable sector under which your organization is classified, you will find many affluent prospects and donors among your ranks. Once you have identified them using income and other variables, you should start to identify prospect groups. By clarifying the various ways your affluent donors interact with your organization you will have a unique profile specific to your organization.

Let's look at three techniques that you can employ:

1. **Use in-house data mining to create suspect groups.** Begin to collect the demographic and socio-demographic data identified in this paper and review your organization's donor base for specific characteristics; a general profile of your unique affluent donor should emerge. Each organization's profile will differ from this basic one due to differences in factors including the age of your organization, the sophistication of your fundraising efforts, and historical giving and your specific community.
2. **Conduct constituent modeling to easily identify specific prospects.** Alternatively, you may want to circumvent the time and expense you would invest doing this in-house, however, and hire an outside vendor to review your database and append the necessary information for you. Donor profiles can be created for you, and a ranking of your prospects can be completed within weeks or months rather than years. Further, use of behavioral likelihood models identifies with statistical validity the exact portrait of your major gift prospects and groups them according to likelihood or ability. You will be able to focus your time reaching out to your best prospects and asking them to join your mission work rather than collecting and analyzing data on your own.
3. **Track and report specific data to monitor donor patterns and year-over-year trends.** Once you have identified affluent donors within your donor base, review and report the specific giving patterns they exhibit such as average gift size; average length of time on file; average number of gifts per year; specific programs or mission-areas that they tend to support; what appeals or solicitations they respond to, and; what giving methods they tend to use most (i.e. on-line, direct mail, gifts of stock, etc.). Using this information you can create better messages specific to giving levels and mission-funding that tends to appeal to your own affluent prospects.

When it comes to securing major gifts, building personal relationships with your prospects is critical in securing larger donation amounts. Annual fund letters tailored to the specifics of your affluent audience may increase their smaller gifts to mid-sized ones, but you are not likely to see major gifts come in through the mail.



About Target Analytics

Target Analytics gives you a complete assessment of all your prospects – at all giving levels – providing you the critical data you need to develop cultivation strategies for your annual, planned and major gift prospects.

We offer donor behavior analysis and collaborative peer benchmarking. Our variety of data driven, collaborative business intelligence services are designed to help you quickly identify fundraising opportunities or challenges within your programs, evaluate past strategies in which to invest current resources for maximum future returns, and share key information with managers, staff, and board members.

These tools can help with your prospect research needs:

- **donorCentrics™** - fundraising performance & benchmarking
- **P!N** - powerful prospect screening
- **ProspectPoint®** custom prospect segmentation
- **WealthPoint®** comprehensive wealth identification

SUMMARY

Apart from the wealthy philanthropists in your community there is a secondary group of people who are equally as generous, but who are waiting to be approached and cultivated by you. The *affluent* donors and prospects already associated with your organization should be considered one of the most important cultivation priorities in your mission-funding plan. Now is the time to stop conducting activities that give you the same result over and over again: frustration and cultivation insanity. Instead, it's time to identify and reach out to more likely high-end annual and major gift funders.

The affluent in America are growing and their generosity has already been demonstrated – are you poised to take advantage of their desire to make a difference in our world?

Later in this series of white papers on wealth and philanthropy in America we will explore the characteristics that further identify unique sub-groups of the affluent including women, gay-lesbian-bisexual-transgendered philanthropists and emerging philanthropic groups including African-Americans, Asian-Americans and Hispanic Heritage-Americans. Additionally, we'll look at the specific communication methods and mission-messages that most appeal to these groups and make specific cultivation and solicitation suggestions.



About Blackbaud

Blackbaud is the leading global provider of software and services designed specifically for nonprofit organizations, enabling them to improve operational efficiency, build strong relationships, and raise more money to support their missions. Approximately 19,000 organizations use one or more of Blackbaud products and services for fundraising, constituent relationship management, financial management, direct marketing, school administration, ticketing, business intelligence, website management, prospect research, consulting, and analytics. Since 1981, Blackbaud's sole focus and expertise has been partnering with nonprofits and providing them the solutions they need to make a difference in their local communities and worldwide. Headquartered in the United States, Blackbaud also has operations in Canada, the United Kingdom, and Australia.

For more information about Blackbaud solutions, contact a Blackbaud account representative. In the United States and Canada, call toll-free 800.443.9441. In Europe, call +44 (0) 141 575 0000. Visit us on the web at www.blackbaud.com.

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¹ [Patterns of Charitable Households Giving by Income Group](#), The Center on Philanthropy, 2007.

² [Patterns](#).

³ [The Rich, the Wealthy and “the Others”](#), National Association of Black Social Workers, <http://www.nabsw.org/mserver/NewsArticles.aspx?articleID=971>, November 2008.

⁴ Stanley, Thomas J. and William D. Danko, [The Millionaire Next Door](#), Pocket Books, 1996.

⁵ [Patterns](#).

⁶ [Foundation Growth and Giving Estimates](#), The Foundation Center, 2007.

⁷ “Donor-advised funds gaining,” Investment News, Nov. 19, 2007, <http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20071119/REG/711190302/1018>