



Revolution in the Donor Market

How the Internet is stirring up the social sector.

In the last decades, the Internet has sparked an enormous transformation. With Google and Wikipedia, we can now extract precise and efficient information from an ocean of knowledge. Platforms such as eBay have revolutionized retail. And the film and music industries, under pressure from MySpace and YouTube, have had to alter their traditional business models significantly. Social Media and platforms, blogs and websites operating under the term “Web 2.0” represent a rapidly expanding mass-phenomenon. Facebook has 300 million active users; in only the weeks between March and July of 2009, the number grew by 50 percent. Such an increase bespeaks the obvious: an end to this development is a long, long way off.

Another similar revolution is taking place in the social sector. The Internet will have sweeping implications for the donor market and the relationship between social initiatives and their supporters.

At the moment, the possibility of online fundraising as the primary source of funding in the social sector still seems laughable. In Germany, only between 1 and 3 percent of donations are made online. But that is going to change. Rapidly. In the USA, around 5 percent of donations are already received over the Internet, and the prediction is that this method of giving will increase to 50 percent by the year 2013.

Besides, the donor generation of tomorrow already spends a considerable portion of their daily lives on the Internet. These people will expect nothing less than to be able to engage socially online. But the classical donor market—those over 50—is spending more time on the web as well. The so-called silver surfers are among the strongest-growing user group on the Internet. This phenomenon is not limited to western countries. A growing portion of the global population now have access to the web—through Internet cafes, community centres, or the increasingly invaluable mobile phones—and are now able to navigate online for necessary knowledge.



FIVE GROUNDBREAKING CONSEQUENCES FOR THE DONOR MARKET:

1. THE LITTLE GUY GETS BIGGER

An Internet presence barely costs anything. That’s why the smaller organisations can present themselves alongside the larger, better-known organisations. In 2004, Chris Anderson, publisher of the magazine “Wired,” developed the thesis of “The Long Tail”: niche products are more successful over the Internet, constituting altogether higher profits than conventional, mass-produced goods. At betterplace.org, we are experiencing how this principle manifests itself in the social sector. Small initiatives and organisations the world over find a place on our platform next to the large aid organisations such as SOS Kinderdorf, Kinderhilfswerk, or Red Cross. They are able to do this because the registration and published project sites over betterplace.org—as well as the simple opportunities for communications and payments—are free of charge.

In the sense of the Long Tail, people with varied and specific interests can find exactly the initiatives that they want to support. For example, someone who just read about forced prostitution in India can engage immediately with little red tape. Before the Internet, efforts at research were costly. Today, a simple search at betterplace.org calls up a long list of aid projects, organisations, and concrete support

opportunities in a matter of seconds. This new alternative greatly enriches the engagement opportunities for people who wish to donate their money, goods or expertise. But this “Long Tail of Aid” doesn’t make everyone happy. Especially not the larger aid organisations, whose new competitors will, in the future, challenge them for each donation. In the Internet, the UNICEF school project in Malawi is only one page away from local grassroots projects in the same country. Those donors who may be tired of scandals and intransparency among the international aid organisations might choose to support smaller organisations, who appear to have lower administrative costs and higher impact.

2. NEARLY FREE FUNDRAISING

Today’s non-profit world faces the challenge of ever-increasing capital acquisition costs. Around 90 percent of donations are received from loyal donors. A third of these donations are used for capital acquisition costs. From this so-called fundraising budget, another 60 to 70 percent is used to find and acquire new donors. That’s money down the drain. Many of the direct mail appeals for new dona- ▶



tions don't meet the 5,5 percent response required to cover costs. If the rate of returns is even lower, then the only people earning anything in the bargain are those providers doing the fundraising, while the projects—which are truly in need of support—receive nil.

The donation acquisition costs increase with the number of professional fundraisers, who operate in a landscape in which a static amount of donations are crowded by the ever-increasing number of non-profits on the market. Only one thing deems useful in such a predicament: professional fundraising. And that's how the field of donor acquisition developed into a dog-eat-dog industry with its own educational institutions, workshops, handbooks, newsletters, experts and event managers.

Of course, fundraising needs to be learned, and it costs money to raise money. But the question is whether these costs are transparently disclosed and measured, and whether they could be reduced. Thanks to online fundraising,

the latter can be answered with a solid "yes." Organisations can use the enormous dissemination potential of the Internet for nearly no cost. It takes less than half an hour to set up a project online at betterplace.org. Through links and email circulations and over communities like Twitter or Facebook, a project is introduced to a worldwide audience. Organisations can communicate with their stakeholders, acquire new donors and simultaneously maintain relationships with their regular donors. And, betterplace.org doesn't charge a single cent for our services. Because our bank partners, Wirecard, BNP Paribas Deutschland and PayPal have forfeited their normal transaction fees, 100 percent of donations are passed on directly to the organisations.

Illustration: Daniel Stolle

3. ACTIVE NOT PASSIVE: DONORS ENGAGE

In the olden days, media producers expected their hoards of readers, listeners and onlookers to receive their product passively. The Internet has done away with all that. Today, news, knowledge and entertainment are collaborative, becoming more and more often a dialogue between producers and consumers. These consumers are contributing actively to content as well, which is why the American journalistic researcher Jay Rosen refers to them as, “The people formerly known as the audience.”

This same phenomenon is occurring in the social sector. The Internet offers simple new ways for donors to put their ideas and knowledge on the table—donors are becoming supporters. More and more organisations are therefore opening themselves up to dialogue and input from supporters and turning toward collaborative strategy development.

Here’s one in-house example: I recently stumbled across a Malaria prevention project that I liked on betterplace.org and I donated to it. But I was interested in finding out about the origin of the mosquito nets that the aid organisation hoped to distribute in a West African country, since I knew of an organisation in Tanzania that produced good insecticide-impregnated nets. In order to strengthen sustainable local businesses and jobs, I figured that the nets shouldn’t be made in Europe, but should rather be bought from businesses on location. In the offline-world, satiating my curiosity would have been tedious work. I would have first had to write a letter, find the correct address within the aid organisation, stamp an envelope, and march it down to the mailbox to await the response. Which is too much effort for most of us. But on betterplace.org, I was able to reach the project manager in a single click, ask my question and offer my suggestion. A few days later I received the answer: the nets weren’t produced in Africa. But at least I had the feeling of having been heard and that my suggestion would be considered. However, had the organisation treated the issue earnestly and kept me updated, they would have won an enthusiastic donor who would have donated to more of their projects and recommended their organisation further among her social networks. My suggestion would have also served as a better solution, on a communal and political-developmental level.

4. WEB OF TRUST: TRANSPARENT AND EFFECTIVE

Online fundraising offers donors the chance to better assess the effectiveness of their supported projects. To this end, organisations must face up to the challenge of making their work more transparent. To date, it hasn’t been easy for donors to judge where their money would be best put to use: at World Vision? at the Johannitern? or at the Chocki Traditional Arts School (an art school for children in Bhutan)?

At betterplace.org, the Web of Trust gives project stakeholders a voice. Project managers provide authentic updates about their work and those who benefit from the project write blog posts detailing whether the efforts of an organisation have truly had a positive impact on their lives. Visitors, well-known donors, and volunteers who have been onsite to a project can also share reports to the community about their experiences.

Paired with the conventional quality assurance measurements, such as the non-profit certification or a donor seal of approval, this bottom-up feedback approach enables a more realistic measurement of which organisations are having the highest impact.

But aren’t there also black sheep milling amongst the betterplace.org family? After all, anyone can sign up, create a phony project and rake in dough. Yes, but the Web of Trust functions extremely well—dubious projects disappear deep into the Internet’s folds and go unsupported, while the good ones float to the surface and receive support.

5. NEW DONORS, MORE DONATIONS, BETTER WORLD

Due to simpler donation options, targeted collaborations between organisations and supporters, new target groups and a heightened trust due to transparency, the volume of donations is on the rise. Online fundraising is particularly attractive, since people who are already online have a low threshold for active engagement. We are spending more and more time online and are always only a few clicks away from the possibility to donate. In addition, online donations can be combined with many different transactions. And it’s fairly easy in the Internet to precisely match niche groups to their interests. The Long Tail of the Organisation, described above, meets the Long Tail of the Donor.

One good example of this is the fundraising team from Pennergeme.de, which raised for homeless projects in Germany around 20,000 Euros from hundreds of new donors in a short period of time.

The Internet also offers a superb opportunity to find and get in touch with new target groups. The average donor on betterplace.org is 37 years old, clearly much younger than the classical German donor market. To these people, managing and activating social networks online is a part of everyday life. Everyone can be a fundraiser online—by linking to a project on one’s Facebook profile, appealing to friends and acquaintances through emails or Twitter, or by posting widgets on one’s website.

Online philanthropy might still be nursing its milk teeth, but it’s gonna turn the donor market on its head. And betterplace.org is excited to be at the forefront in helping to shape this development.

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