



## **MEDIA BRIEFING:**

# **RETHINKING THE COST OF FUNDRAISING**

Last updated: November 2020

## **Background**

The following document has been prepared by the AFP Canada Communications Committee to assist chapters and members with outreach and response on the topic of the cost of fundraising. As part of our mandate to bring the AFP Narrative for Canadian Fundraising to life (<https://afpglobal.org/narrative-canadian-fundraising>), the committee has developed this overview, key messaging and frequently asked questions about this critical issue.

This document can be used to inform and support both proactive and reactive media relations on behalf of AFP and your organization. Possible uses include:

- Using content to develop opinion/editorial pieces
- Responding to inquiries from media, donors or boards
- Fielding media inquiries that come to your organization during the holiday season or at other times
- Positioning yourself in your local media market as a thought leader on the topic of fundraising

## **Overview:**

The issue of the “cost of fundraising” is a perennial one. Donors give their money voluntary to charities, and they want to find ways to measure the impact of their giving. Focusing on the “cost of fundraising” seems like an easy way to do so. In addition, charities often have to address this issue during the holiday giving season from donors, governing boards and the general public, all fueled by media that publish charity rankings or lists of “worthy” charities.

**It’s time to rethink the cost of fundraising as something not to be avoided, but to be embraced as ONE measure of investment that charities need to make to create impact and change the lives of those they serve.**

## **Key Messages:**

- 1) **The cost of fundraising should be embraced as one measure of investment by charities.**
  - For profit businesses make investments in people, infrastructure, marketing and technology. They spend money to run a cell phone company, run a restaurant or to manufacture shoes. Charities make investments to run programs and services that benefit worthy causes. **Let's acknowledge and celebrate that charities are investing to grow their impact in our communities.**
  - For-profit businesses are usually celebrated for the investments they make to run their business; charities should be as well.
  - In the for-profit sector, the difference between profit and loss can be slim. Some retail stores will even sell a product at a loss to get you to come to their store. Having a "loss-leader" product is an investment to get you into their store so you'll buy their profitable products. Similarly, charities may run fundraisers like events or direct mail campaigns with slim or no profits in the short run to help build longer-term donor relationships and awareness. *{Editor's note: Have a tangible example from your own charity about diverse fundraising sources such as events, bequests, direct mail, major gifts. Tell them how, in aggregate, they support your charity's long-term goals.}*
  
- 2) **If you want to assess a charity, instead of looking at one financial metric, look at impact.**
  - The two most important factors in your giving decision should be a charity's ability to fulfill its mission and its overall impact.
  - Key questions to ask yourself when choosing which charities to support:
    - What impact is this charity having in my community?
    - Are its programs working and effective?
    - Are they addressing issues and services that I believe in personally?
  - *Editor's note: See question 1 below for additional ways to help donors make a giving decision.*
  
- 3) **With 170,000 charities and nonprofits in Canada, no single metric can judge effectiveness. Impact, size and scope matter.**
  - There are many diverse organizations in the nonprofit sector. Many are small, while others are provincial, national and even global in nature.
  - While perhaps more common in the past, the idea of charities being run solely by volunteers is now very unusual. Employee bases can range from single digits to hundreds of employees and managed by professional, highly qualified leaders who manage millions of dollars. For example, professional fundraisers that are guided by a code of ethical practices are

vital for a charity to ensure donor dollars are appropriately stewarded. They are trained to employ best practices to be effective and efficient in raising money to serve a mission.

- Spending too little on things like infrastructure and salaries can be counterproductive. Having equipment like computers that are 20 years old doesn't help an organization—if anything it hinders the charity's ability to provide services. Organizations with strong foundations in people, technology and fundraising excellence are better able to make it through difficult times and achieve long-term impact.
- There's no single metric to accurately judge effectiveness in for-profits and nonprofits, no matter what any list published by any charity evaluator might say.

## Questions and Answers

### 1) **If I'm not looking at the cost of fundraising, how should I evaluate charities?**

Donors should look at tangible impact in the form of programs, services, research and on-the-ground benefits that affects real people.

People should be knowledgeable about charitable solicitations that come their way. In some cases, caution is warranted to make sure your funds are going to appropriate and legitimate causes. Tips and questions to ask:

- Ensure the organization you are looking at has a registered charitable number.
- What results come up when you do a web search of the charity's name? Is there anything unusual or suspicious in the search results?
- Are their audited financial statements readily available?
- Look at their annual report. Are you comfortable with how they use their funds?
- For crowdfunding campaigns, look for clarity on how the funds will be used and who they'll be distributed to.
- Does the organization subscribe and align itself to AFP's *Code of Ethics*?
- Smaller charities can be incredibly impactful. Don't exclude them because they don't have a big public profile. Do your research and talk to representatives of the organization.
- Talking to people at charities of interest is a good practice in all cases. You can get a feel for how the organization runs and ask questions about impact.
- Do you understand how their business works? Are you comfortable with it?

### 2. **Should I be worried about the cost of fundraising for the charity I want to donate to? Is there an ideal cost of fundraising?**

It's important for donors to have reliable information about the charities they support, including financial details. Giving is often oversimplified to be only about giving to organizations that have the lowest administrative expenses. Instead, donors should look at tangible impact in the form of programs, services, research and on-the-ground impact that reaches real people.

Charities have overhead costs, just like for-profit organizations. Fundraising and other administrative costs may reveal something about an organization's management. Donors should look at a charity's cost of fundraising, its overall

budget, and whether or not it is running a deficit. They should look for signs of consistent management and stable costs over several years.

Donors should look at an organization's overhead spending relative to the work they do. Spending too little on things like infrastructure can be counter-productive—especially when those organizations with strong systems and reserves may be able to help even more through difficult times.

Costs reveal nothing about an organization's effectiveness and overall work. Different types of charities and programs have substantially varying costs (compare a charity that works to find a cure for a disease versus one that provides meals to the needy). Comparing organizations by costs and expenses won't show anyone the relative impact they have on society. Is an organization with 17 percent costs that much better than one with 27 percent costs?

Given the wide range of charities in Canada and their purpose, size, scope and types of fundraising, there is not a standard ratio that can be applied throughout the sector.

#### **Additional reading/viewing:**

- [How Much Should a Canadian Registered Charity Spend on Administration?](#) (Canadian Charity Law)
- [How much should Canadian charity spend on overhead?](#) (Canadian Charity Law)
- [The way we think about charity is dead wrong](#) (Dan Pallotta, YouTube)
- [Evaluating fundraising costs](#) (AFP Global)
- [Charity Fundraising Costs, Watchdog Scoring Requires Much More Nuance](#) (AFP Canada)
- [AFP Responds to Maclean's Article on Charity Effectiveness and Employee Salaries](#) (AFP Canada)
- [Don't villainize overhead costs for charities this Giving Tuesday](#) (Toronto Star)
- [Measuring Impact, Not Administration: A Primer on Charity Overhead](#) (Charity Village)

To learn more about AFP Canada visit <https://afpglobal.org/afp-canada>.