

Crowdfunding

An introduction to social fundraising.

next in
nonprofits

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Introduction

Nonprofits can reach larger audiences than ever before.

Raising money from lots of people isn't a new idea. Charities have been in the business of raising money from crowds since the first collection plate was passed. What has changed in the last few years is the scale made possible by new social sharing and the Internet. Nonprofits can reach larger audiences than ever before, and at very little cost. Traditional businesses may be finding this tactic through sites like Kickstarter but there is special opportunity for charities to build new relationships and do outreach using these techniques.

Doing good work isn't unique to nonprofits¹, but leveraging the advantages of tax-deductions and volunteer networks can mean engaging lots of people. That is what makes crowdfunding work.

Five Factors of Crowdfunding

Five key characteristics – and opportunities – distinguish crowdfunding from other ways charities raise money.

Goal specific

A crowdfunded effort is trying to reach a specific goal, though there may be “stretch goals” to create an additional excitement in case the first goal is reached. A definite, achievable, end-point is very different from the ongoing support most nonprofits are seeking from donors. Examples have included funding a play, buying an asset, or launching a new program location.

Time sensitive

A crowdfunding campaign ends. If the goal isn’t met by that time, there are negative consequences. It may be your charity doesn’t collect any money at all. It may be you can’t launch the new program or get the new equipment when you need it. Crowdfunding is all about the sense of urgency. A goal too far out seems like it can wait for some future consideration, and so crowdfunded efforts often keep the campaigns very short, around thirty days².

Accessible

The traditional capital campaign is a very costly endeavor for both the non-profit and the prospective donors. Expensive consultants, glossy print materials and more mean going after donations under \$1,000 just aren’t worth the time. Most of your potential supporters are alienated from this type of fundraising. Crowdfunded efforts, by contrast, succeed because every donation is valuable, and suggested contributions start very low, often at \$10 or \$25.

Reward based

Crowdfunded efforts engage supporters by offering exclusive perks to funders. In the case of a for-profit launch, that may be the product being produced. In the case of nonprofits, that has often been a t-shirt or a mug. Nonprofits have a lot of experience with the donation perk (check your closet for tote bags). Common rewards are less effective, and clever counts for a lot in the world of crowdfunding. Exclusive access to interesting people for a lunch, or of course the increasingly popular “voicemail message from a moderately famous person” are unique, inexpensive rewards. It’s not the value of the thing, it’s the exclusivity that encourages donors to jump in before the reward is gone.

Social

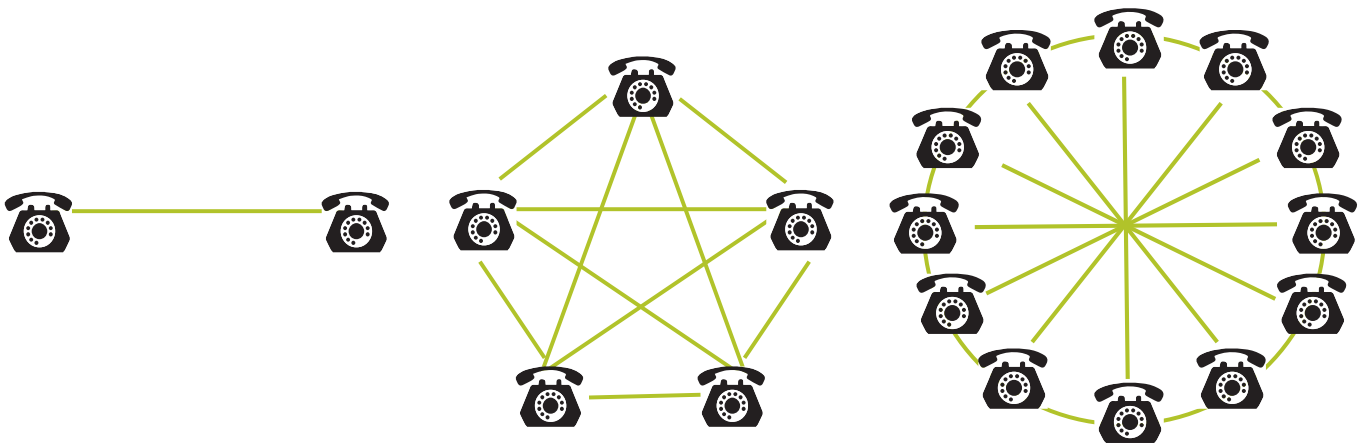
This is the most important differentiator in the world of crowdfunding. The way to reach lots of people is to recruit your supporters to go to their social networks and recruit their friends and families to give. And so on. Traditional nonprofit fundraising is based on the nonprofit delivering the request to potential supporters. Crowdfunding works because the communication comes from many people directly to their social connections. The nonprofit is only a reference point in the communication between those players. This gets your charity an introduction, which is good, but the interaction between people is what really matters.

Why it matters

This is a new option to reach supporters who don't even know you exist.

The Five Factors give new options for raising money, so it's not an "either/or" proposition with traditional fundraising – it is "and." Your nonprofit may choose not to do crowdfunding, just like you can choose not to do an annual appeal or a 5K run or seek corporate sponsorships. Not every tactic is right for every group, but for nonprofits seeking growth, this is a new option to reach supporters who don't even know you exist. You could buy a postal mailing list of likely prospects, but leveraging crowdfunding costs less and (generally speaking) doesn't irk people the way unsolicited postal mail may for some audiences. You can use supporters to reach new supporters. If you do this right, that cycle can continue and some of those new supporters will help you find – you guessed it – still more new supporters.

It's also important to remember your old means of finding new donors aren't going to work forever. Many younger people aren't listed in phone books, or simply don't answer the phone unless it is someone they know (and often not even then). Much of our postal mail goes right to the recycling bin. You need an "in" to reach these folks that may really care about what you do, and one of the best ways to get an introduction is through a mutual friend.



Metcalfe's Law: The value of networks increases as people are connected. More connections creates more value.

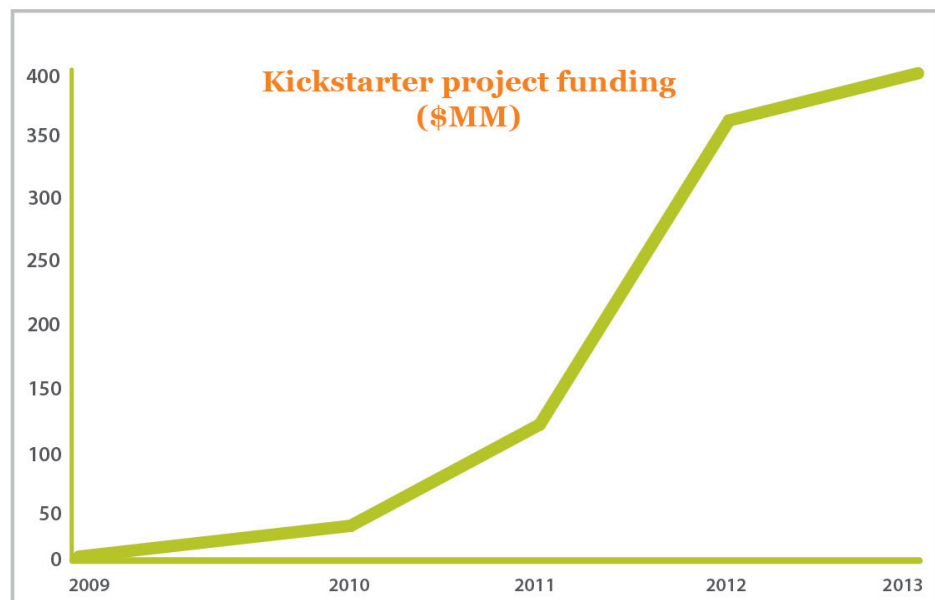
Choosing a platform

You need to accept donations online and give donors an easy way to share via their networks.

This great new tactic seems like a winner for you, but now what? You need a way accept a lot of donations online, and easy ways for your supporters to share with each other quickly. After all, you're on a deadline. Picking a mechanism to accept money is called defining your platform, and there are some platforms which only do crowdfunding, some that work well for crowdfunding, and some ways to make your existing tools work for this purpose. There's a great list of platforms available on the Web³, but let's review a few top choices for nonprofit organizations.

Kickstarter

The most famous of crowdfunding platforms, Kickstarter has become a verb in some circles, such as "Great idea! You should Kickstart that." Kickstarter uses Amazon Payments to collect pledges if a project is funded, which is helpful because so many people already have an Amazon account. Remember, friction is the enemy of crowdfunding. The more steps required to complete a pledge, the less likely you are to get one. Let's also remember many Kickstarter projects are never actually funded. If a Kickstarter project doesn't reach the set goal, no fees are collected (hurray!) but no funding is collected either (boo!). The chart here shows the dollars actually collected via Kickstarter since it was founded. Even without the pledges from failed projects, this is an impressive amount of money, it is growing, and this is only one platform.



Source: Kickstarter.com January 2014

The biggest downside to Kickstarter is the fees. You've got to be ready to pay from 8-10% of the collected revenue to cover the credit card transaction costs and Kickstarter's costs for letting you succeed with their Web-based platform. And apps. And social support. You get the idea – they bring some stuff to the table, but it's going to cost you.

Kickstarter promotes their extensive reputation and website as a benefit to projects, saying it aids in discovery. Having a great big network of registered

Choosing a platform

Kickstarter fans at your disposal sounds great, but remember – very few (if any) of them just hop on Kickstarter every day to see where they can drop all their extra cash. The new game is all about using your social connections to reach new people. The platform isn't as important here as long as it looks secure and credible. A processing partner with an unfamiliar name or an unprofessional website will scare off potential donors. That is one more friction point to avoid even if it costs a little more in fees.

Indiegogo

Probably the second-best known crowdfunding site, there are a couple of advantages to Indiegogo over Kickstarter. First, there is non-profit pricing so you can save a little bit on your project (fees of about 7% if you reach your goal⁴). The better advantage is a safety net. Your nonprofit can elect to receive the pledges even if you don't get all the way to the end goal. In this case, you pay more (closer to 12% of the pledges) but perhaps 88% of a loaf is better than none at all.

Indiegogo has a compelling success story for nonprofits about the acquisition of the former Tesla laboratory, Wardencllyffe⁵. The project had languished as a traditional nonprofit capital campaign for years, until the creator of TheO-atmeal.com (a comics site which is often not safe for work) stumbled on the cause after doing a comic about Tesla. He used his popularity to reach new audiences the nonprofit could never have contacted. With the social component of this campaign in full gear, they collected \$1,370,461 from 33,253 new donors exceeding their goal by hundreds of thousands of dollars.

Razoo

The site may be lesser-known, but it has a couple of very nice advantages for the charities wanting to save some money and ease the process for their donors. Razoo has already set up your charity to receive tax-deductible pledges⁶, and they can automate the process of sending receipts to your donors for their tax records. And they have the lowest fees of the three examined here, collecting 4.9% of the donation. You get to keep whatever donations are made regardless of whether you reach your final goal, and at the same fee structure no matter what is received. Finally, they have built in some great social tools for your supporters to share the message, so you don't have to struggle with how to integrate the sharing campaign⁷.

If your nonprofit already accepts online donations and has a better fee structure with your credit/debit card partner than the fees mentioned above, then it's important to weigh what else the crowdfunding platform brings versus what your own website has to provide. Can users easily share their pledge with networks? Can they create their own donor pages to allow them to bring new donors to hear their story? Can they easily see progress toward a goal and how many rewards have been claimed? Can your nonprofit get contact information about donors out of the partner site (assuming the donors are okay with you

Choosing a platform

having that information. Razoo lets you download an Excel spreadsheet (which can be imported to nearly anything) but not all sites handle this the same way.

If your site can do all these things and you want to raise some serious money, say more than \$100,000, then perhaps you don't need an outside platform. If you are just trying out your first crowdfunding campaign for \$25,000, it may be worth it to pay the fees to use all the bells and whistles of these platforms and avoid the headache of recreating the wheel. There is no hard line here, except to say if you want to raise a lot of money you may really be better off building everything you need for your own site, rather than paying a flat percentage and still not owning a better website at the end of the project.

What to crowdfund

You need a project and an endpoint.

Crowdfunding isn't traditional fundraising, looking for ongoing operating support. Like a capital campaign, you need an endpoint. Most nonprofits would prefer an open-ended donation to just go out and do good work, but that doesn't carry the urgency so important to crowdfunding. You need a project. And you probably already have several, they just haven't been thought of as a crowdfunding goal yet.

Equipment

This is a great way to test the crowdfunding waters. Almost every nonprofit could benefit from a technology upgrade. Bundle your needs into one package and talk about how you've suffered with Windows XP long enough (after all, your audience will feel this pain) and how you need laptops that can operate on batteries long enough to help someone in the field. Better still, talk about how a group of new 4G tablets can have you providing services where you never could before, but you need help getting not only the machines but some staff training and the first years' wireless bill paid. \$10,000 for this type of project is relatively easy, and hits the heartstrings of the social crowd. Don't try getting furniture or paying for a database service agreement; it won't have the same resonance.

Program launch

A new effort in a new neighborhood with new goals – that is crowdfunding if you can affix a deadline to starting. Find a good reason why that new program needs to start in 30 days. Again, you probably have good reasons for this, just talk to your crowds about why those reasons are what you need. This isn't a foundation grant – you don't need or want to present a detailed budget when you are asking for \$50. You just want a definable need that has an end goal. Yes, you may have some issues with ongoing funding later, but you may even get that foundation grant if you can show crowdfunded support started the program they weren't able to fund the first time. Shaming is a long-standing nonprofit tradition, after all.

Capital campaign

It will be hard to raise millions of dollars for a new building this way, but you can raise that important "first-in" gift for your building. This can get those other donors and foundations off the fence. Tell them you're matching their money with micro-donations and leverage \$100,000 into millions. Again, your crowdfunding folks just need a deadline and a reward, they don't need to fund the entire project. If \$100,000 is the down payment, tell your supporters that is what you are trying to raise.

Rewards

Give your donors recognition and unique value they can proudly share with their networks.

Remember that part about getting clever with rewards? Think this through before you launch the campaign – this is deceptively important. People don't want to give you a \$25 donation and get a \$15 dollar t-shirt. First of all, they have enough t-shirts. Secondly, they can do the math. They want you to get the benefit of this donation and they can tell if you're really just selling a very expensive t-shirt and not doing a crowdfunding campaign.

You need to give your donors recognition, and unique value, that they can proudly share with friends and family. Putting their name on website is a good starting point, but as the pledges get bigger, the rewards need to get more special, not necessarily more expensive. Lunch with a local politician. A voicemail recording from a musician they've heard. The right to introduce the speaker at your big gala event (remember, you're still doing the gala, or the 5K, or the whatever else you do to raise money). Start with something small, perhaps even just a Tweet thank you. Then scale and people will fight for the limited-edition top donor rewards. This adds a game element for donors, and that can encourage more participation⁸.

Recruiting teams

You don't just need donors. You need people to help tell your story.

The social aspect of crowdfunding means you're not just recruiting donors. You're recruiting recruiters. You need your inner circle – the folks who are already donors or other stakeholders – to create their own fundraising pitch about why what you do as a nonprofit is important to them. They are telling their personal story as well as your nonprofit story. They need to ask their contacts to give because it is important to them as a “team captain,” not just because it is important work. Really, many donors are giving \$25 or \$50 to their friend, your nonprofit just happened to be how the gift was delivered. They become the captains for their own private fundraiser, which is a part of your larger crowdfunding campaign.

Some of those folks your team captains reach will also be your audience, and some of them won't. Some give because of their friends, and some give because of their friends and your great cause. Those people can be recruited to become team captains. And so on. Twin Cities Habitat for Humanity managed to far exceed their Give to the Max Day goal using this strategy, doubling the number of donors and nearly quadrupling the dollars from the year before⁹.

Training your team leaders is crucial. A Facebook post alone isn't enough, but should be included as a follow-up to emails and even phone calls. There are very specific ways to encourage this without being pushy, and part of it is in educating your team captains.

Last words

Invite your donors to the table and move them up the engagement ladder.

A crowdfunding campaign isn't about your nonprofit, or even your great nonprofit mission. If a great mission were enough to attract donations, the US giving rate would be three or four times the 2% it is today¹⁰. It's too easy to read a well-worded appeal in an email, and then just move on without actually hitting the "donate" button.

Crowdfunding appeals makes your donation public, and holds you accountable to the person who asked you to give. It's no longer a faceless organization that is one good cause among many – it's your friend who'll you'll see later. It's your family members who you see on holidays. Of course the person getting the email can still say no. But it isn't just saying no to your great mission anymore.

A "no" has some social consequences, but a "yes" has even more social benefit than a traditional donation. When a donor says yes to a crowdfunding campaign, they get social props for doing so, and perhaps even a unique reward as well. This in addition to the good feeling your regular annual appeal donors get from joining in. This does not mean your new donors are now automatic allies you should add to an email list and start hitting for more and more contributions. They are once-removed from that category. They need to be invited to the table to move up the engagement ladder. Don't assume they love your nonprofit because they pledged your campaign. Assume they love whoever asked them, and they have nothing against your charity. Start the conversation from there. Of course you would like them to become advocates for your mission, but cultivating that relationship means understanding where it begins. If you opt all crowdfunders into the same prospect category, you risk alienating them. If they are only donating because of a personal relationship, respect that and move on. Those who really care about your work may be ready to hear more, but on their terms.

Getting started

Learn how to use crowdfunding to leverage your donor base in new, more effective ways.

We serve the specialized fundraising and communications needs of nonprofit organizations interested in finding new ways to support their missions.

Our services include

Content marketing to create community advocates and supporters who understand your mission and impact.

Business management to employ new tools for tracking outcomes, reducing costs and increasing revenue.

Training to help nonprofits embrace the benefits of new practices and how they can bring stronger results to the world.



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Steve Boland steve@nextinnonprofits.com

Twitter: [@NextNonprofits](https://twitter.com/NextNonprofits)

Facebook: [NextInNonprofits](https://www.facebook.com/NextInNonprofits)

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Endnotes

1. <http://www.nextinnonprofits.com/2013/09/nonprofitiness/>
2. https://www.kickstarter.com/help/school#setting_your_goal
3. http://en.wikipedia.org/wiki/Civic_crowdfunding#Crowdfunding_platforms
4. <http://www.indiegogo.com/features-for-nonprofits>
5. <http://www.indiegogo.com/projects/let-sbuild-a-goddamn-tesla-museum--5>
6. <http://www.razoo.com/p/nonprofits>
7. <http://www.razoo.com/p/teams>
8. <http://www.nextinnonprofits.com/2013/08/gamification/>
9. <http://www.johnhaydon.com/2013/11/18/how-one-nonprofit-dominated-their-giving-day/>
10. <https://www.charitynavigator.org/index.cfm?bay=content.view&cpid=410>
11. http://creativecommons.org/licenses/by-nc-sa/4.0/deed.en_US