The Ultimate Guide to

DIVERSIFYING YOUR FUNDING STREAMS

A guide to help you decide which funding stream is right for your organization

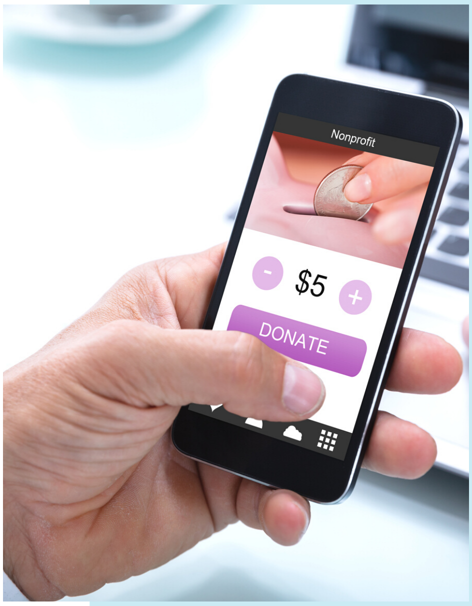
GrantStation
Your Fast Track To Funding

nonprofit hub

The Ultimate Guide to Diversifying Your Funding Streams

Conduct a search on best practices in nonprofit development, and you will likely come across advice to diversify your funding streams. There are a lot of advantages to diversifying your funding streams. The biggest one is it can help your organization's sustainability when one funding stream is eliminated or reduced.

However, each funding strategy comes with its own opportunity (and real!) costs. This guide will walk you through ten different income sources for nonprofit organizations, with key components to consider and resources to explore. A decision-making tool can be found at the end of this guide to help your organization identify the best strategies to pursue.



The basics

There are 10 basic income sources for nonprofit organizations.

1. Individual donors
2. In-kind contributions
3. Special events
4. Earned income
5. Business donations
6. Corporate giving programs
7. Foundation grants or loans
8. Government grants or loans
9. Capital campaigns
10. Planned giving

Deciding which sources to utilize as you build your organization is an important step.

As you establish a new nonprofit organization or build out the income sources for an existing nonprofit, you want to consider each type of potential revenue and decide which ones will work best for your organization.

For example:

- **New organizations:** There are some well-understood methods for startup organizations (first two or three years), including developing individual small donors, securing in-kind donations, applying for one or two small grants, and holding fundraising events.
- **Established organizations:** If you are a more established organization (three to five years old), you may want to expand on those initial sources by establishing a grant-seeking program, requesting donations from local and regional businesses, launching a major individual donor campaign, and developing a planned giving program and/or capital campaign.

To help you get started...

GrantStation offers a free, interactive resource, the R3: Revenue Review and Report tool. You can use this tool to help realize the potential of your organization by:

1. A reviewing where your funding is coming from today
2. projecting where your funding will come from in the future
3. receiving recommendations on next steps for exploring funding sources

Review this Ultimate Guide and then use the R3 tool with your leadership and development team to discuss personalized strategies. You can use the R3 tool as many times as you want as your organization grows and changes over time.

Let's explore each of these types of support. As you review this information, use the Decision-Making Guide to assess your potential success with the specific types of fundraising.

Individual Donors

Most individual small gifts come from founders, board members, volunteers, or membership fees. Building a strong individual giving base, which can provide a solid foundation of general operating support, is critical for the success of any organization, especially small grassroots organizations. You can continually solicit individual donations, or you can implement a membership program, which may be easier.

Whether you launch a membership program or just do individual fundraising, the first step is to identify the kind of technology you want to use. Research the different technology options that will make the donation process simple for individuals and easy for your organization to track. This is a great job for a volunteer.

If you are developing a membership program, your next step is to answer a few basic questions:

1. Do we reference members in our by-laws?
2. What role will members play in our organization?
3. What types of benefits are we able to provide members?
4. Why would an individual want to join our organization?
5. How will members contribute to the organization's mission?

Individual Donors

While individual solicitation of donations is valuable, an established membership program can be much more reliable regarding ongoing support.

After an initial campaign for small individual donors, you can ramp up your efforts by creating a major donor campaign. Raising funds from major donors should be an integral part of any nonprofit's fundraising strategy, as approximately 80% of donations come from just the top 20% of donors. Major donors typically start as individual small to medium-sized donors, but as they recognize the good work your organization is doing, they often invest more.

For startup organizations, it is wise to identify a small cadre of potential major donors (for example, those who can donate $1,000 a year or more) and hold a launch party for founding a major donor program. Give the program an engaging name that begs attention. Major donors should be cultivated, so you want to give each person special attention. For a young organization, this is usually a job undertaken by board members or the executive director. As the major donor program grows, you may want to dedicate a staff person to this important task.

Another source of major donors will be your board of directors. Hopefully, they are already making donations, but once you launch your major donor program, they should all fall into that category unless they have financial constraints, which is often the case with boards comprising people representing the nonprofit's population.

It is essential to establish a major donor program early on in your organization's life cycle and plan for its growth over time.
Bloomerang offers a free, downloadable guide on starting a major donor program. Check it out!

In-Kind Contributions

A well-developed in-kind contribution program can significantly strengthen the overall financial health of your organization. In-kind contributions are anything your organization receives—products, services, discounts, or volunteer labor—that helps maintain or grow the organization with little to no cash outlay.

Almost every nonprofit in existence receives in-kind support. However, most nonprofits that benefit from in-kind support do not document these contributions. Creating a system for accepting, tracking, and reporting in-kind contributions will help your nonprofit immensely.

Volunteer labor alone can be of great value. Each year, the Independent Sector calculates the value of a volunteer hour with a national rate and a state-by-state rate.

The national value of volunteer labor for 2021 was $29.95 per hour.

It is likely that you could document hundreds of hours of volunteer time for your organization over the past year, if not more.

Pro bono & product donations and discounts

Pro bono services, also known as skills-based volunteering, is a growing trend in corporate America. More companies are merging these professional services into their volunteer programs as another way to engage employees while investing in their communities.

This type of volunteering goes beyond traditional days of service, in which a large group of employees joins a nonprofit for a few hours or a full day to clean up a park or paint a building. Instead, nonprofits can get help with pressing needs from experts in their field (for example, marketing, legal advice, bookkeeping, taxes, etc.). A great side benefit is that if a business or company provides pro bono services or skills-based volunteers, then the likelihood of securing a cash donation from that company in the future goes way up.

Another source of in-kind support is product donations and discounts. Again, you want to ensure you have created policies and procedures that are consistent and document the value of the donations secured. You can get the fair market value of the items from the company that donated to you.

If you are receiving donations from individuals, you can track the value using a number of different resources, including this Non-Cash Charitable Contributions Guide from the Salvation Army.

Why is having a documented in-kind contributions program important?

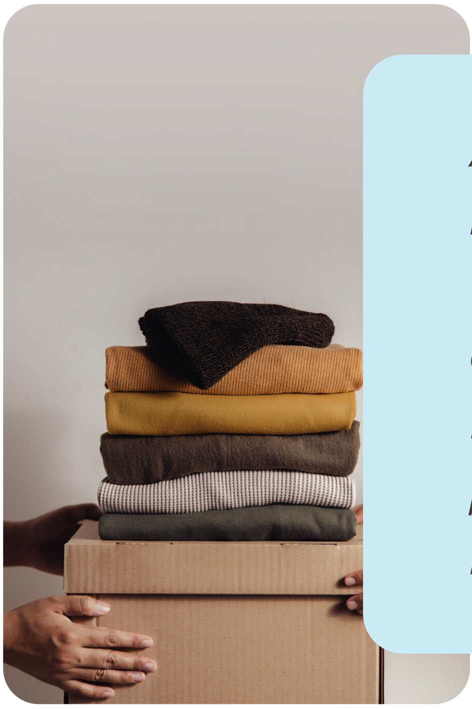
In-kind donations can be used to leverage grants from the private sector, as well as match government grants, so their value is considerably more than it appears on the surface. And showing in-kind contributions in your budget boosts your bottom-line figure, which may enhance your eligibility for larger funding opportunities. In addition, demonstrating you have this type of support can be the springboard for successful local or regional business solicitations of cash support.

Where to begin?

You can start by setting up policies and procedures for accepting in-kind contributions. Until you have those in place, your program is loosely documented and won't withstand scrutiny. The National Council of Nonprofits offers guidance on developing gift acceptance policies.

·Next, adopt procedures for tracking volunteer time and accepting and valuing gifts of products and services. Now, you are ready to determine where you may already be getting un-documented gifts. Start by looking at discounts on rent, printing costs, and services such as internet, bookkeeping, legal advice, etc. Document those discounts or donations and add that value to your budget.

Then, look at your budget and determine where you can cut your costs by either a donation or a discount on the service. Identify a volunteer or a board member willing to pursue these discounts or donations. Make this their “job" for the organization. Let this person own the project, but be sure to document their time because it is also an important in-kind donation.



As with all finances revolving around a nonprofit, there are rules established by the IRS to help guide what you can and cannot consider an in-kind contribution. Learn as much as you can about the proper way to document and report in-kind contributions.

Special Events

Holding an annual fundraising event can be a lot of work. Still, it can provide you with excellent recognition within your community and bring in those ever-so-helpful unrestricted general operating dollars.

Before you dive into your first idea, remember that this event will probably happen every year, so it has to be sustainable and has room for growth. *Think about your market:* Are you trying to bring in as many people as possible, or are you targeting a set of major donors? Will the event be virtual, in-person, or both? Is it a learning conference or a gala? Is your goal to raise large sums of money for the organization, or is it to celebrate who you are and your accomplishments? There are a lot of questions that you and your board of directors need to discuss before you move forward.

Special Events

"9 Questions to Ask Yourself Before Organizing a Special Fundraising Event," written by Terry Axelrod, CEO of Benevon, and posted on Bloomerang, speaks directly to what questions should be considered before you launch a special event. It is a short but beneficial article that links to a webinar Terry presented on this topic.

One of the most important things to consider when you decide to hold an event is whether the event is sustainable: Can your organization do it year after year, building a strong audience?

Try to start small and let the event grow organically. This is why holding an event is an excellent way for small nonprofits to begin raising funds. Your financial goal can be relatively small in the first few years but grow over time as the audience for your event also increases.

Earned Income

Earned income ventures launched by a nonprofit can now take several forms: a complimentary venture, such as a gift shop at a museum, or a social enterprise tied directly to your mission, such as employing women who have been incarcerated to make jewelry. The beauty of earned income is that it taps into the entrepreneurial spirit that exists in much of the nonprofit sector. Board members often engage in this venture more aggressively than asking people for money.

Earned income is an area you want to understand well before you take your organization down this path. Wild Apricot says, "Unlike their for-profit peers, nonprofits have different regulations and rules to tiptoe around while making money. These revenue sources should align with the organization's mission to ensure they keep their 501(c)(3) status. This means they are classified as related income. Revenue not tied directly to the mission falls into the unrelated income category, which has IRS rules and implications for an organization." It is imperative to understand the IRS rules around unrelated business income. You can learn more at the IRS website.

Read this article, "The 5 Best Ways to Generate Earned Income for Your Nonprofit," which will give you some ideas about types of earned income ventures your organization might consider. One of the issues they discuss is launching a social enterprise.

Earned Income

GrantStation encourages you to join the Social Enterprise Alliance for guidance if you go this route.

Charity Charge's article, "5 Examples of Nonprofit Earned Revenue Strategies," may also help you choose the best-earned income venture for your organization. The examples in this article are not only interesting, but they encourage the reader to think creatively.

Any earned income venture, large or small, requires developing a business plan. Contact your regional Small Business Development Center (SBDC) for assistance in creating such a plan. In addition, your board may be able to help with this task. You'll be able to learn more about how the SBDC can help you and find a center nearby.

Once an earned income venture is launched, it can become a great source of general operating support for your organization. However, keep in mind that these ventures almost always require substantial staff support.

Business Donations

It's helpful to differentiate raising funds through local and regional businesses from pursuing larger corporate grants. Going after local support is much like soliciting individual donors, whereas soliciting corporate gifts is more akin to major donor fundraising.

Here are four significant takeaways that can help you in soliciting funds from local businesses:

1. The amount of the donation is fairly small ($500 to $5,000).
2. The amount of work it takes to plan and ask for the donation is reasonable.
3. An annual campaign, rather than simply asking for donations here and there, is more efficient and generates more gifts.
4. It is important to connect with the local chamber of commerce.

Almost any nonprofit can raise funds from local and regional businesses. It is all about finding that connective tissue between your work, those you serve, and the business you approach.

Business Donations

If you are launching your nonprofit, then this campaign can be limited, targeting ten businesses (and perhaps receiving four or five gifts). You can build the campaign and engage your local chamber of commerce if your organization is more established. The cornerstone of these local campaigns is the recurring gift. Many local businesses that donate to your organization and are treated well will give year after year with little solicitation necessary. Most of your work goes into that first "ask."

Determining precisely what you should ask for—products, services, or cash—and when you should submit that request is really half the battle when it comes to raising funds from local and regional businesses, followed closely by creating a recognition package that will intrigue and engage the CEO or the marketing department of the business.

Research is the key to securing local business support. In today's fast-paced, decision-making environment, business owners typically only react favorably to a request that reflects familiarity with their business and that will help promote their products or services to the public. Without researching each potential business donor, you will only get “accidental support,” which is not a recipe for generating reliable revenue.

Business Donations

Your task is to identify possible business donors and build a substantial profile on each one so that you understand how to generate interest and investment in your organization.

Obviously, there is a bit of upfront work to be done, but once you secure that initial donation, most businesses will continue their support for years, so it is a good investment of time.

To be successful in today's funding environment, it is essential that you keep each company's perspective in mind and carefully determine what is—and what is not—a rational request. This means you need to understand each business you approach: what products and services they provide, how many employees they have, who makes up their market, etc.

Your request for support needs to align with the information you've noted on the company's profile—such as their financial situation and the level of support they've given to other organizations.

You need to decide whether you will ask for a donation of cash, a product, or a service. If the business has never engaged with your organization in any capacity, it might be wise to start with a product or service request, eventually moving to a cash donation request.

Undertaking this research is a great job for the fundraising committee or a volunteer. Their work will save you time and allow you to focus your efforts on the actual solicitation process.

GrantStation offers a 4-part, on-demand course, "The Art of Raising Funds From Local Businesses," to walk you through this fundraising approach from start to finish.

Corporate Giving Programs

Soliciting support from larger businesses—regional, national, or global—often comes in the form of a full-blown grant proposal. These businesses almost always have grant support guidelines, set deadlines, a review process, etc. At this level, the corporation often has a separate foundation for handling these requests. An example is New York Life. You can approach their regional office for donations, but you must go to the New York Life Foundation if you want a more substantial grant award.

Corporations often participate in matching gift programs, where they match the gifts their employees make to nonprofits. Or, they demonstrate community support by encouraging their employees to volunteer their time to support the work of the nonprofit community. Taking advantage of both matching gift and volunteer programs involves some work on your part; however, they can both result in on-going support year after year.

Corporations offer various giving options, but the two mentioned above, plus cash grants, are the most common. Again, research is the key to securing grant awards from a corporation, and unlike the local or regional businesses you work with, these awards are most likely not recurring. Every time you need their support, you must write a new grant proposal. However, these awards can be fairly substantial and are often worth the effort.

Foundation Grants or Loans

Foundations come in many shapes and sizes: private, independent, family, community, religious, associations, giving circles, and corporate foundations. You can learn more about foundations on the Council on Foundation's website.

Suppose you are a startup organization or are only a few years old. In that case, you should focus your grant-seeking efforts on your local community foundation, local giving circles, and a regional family fund. The application process is easier, and you, your board, and your organization's mission may be recognized regionally. Some national funders will give to smaller, grassroots organizations, but they are few and far between.

Identifying the right grantmaker(s) to approach can be a stumbling block. Using a database, such as GrantStation, will allow you to keep the research down to hours rather than days and help you find funders you may never have heard of. Whether you subscribe to GrantStation or another searchable database, it is a wise investment that will save you many hours of research.

Another hurdle is fiscal accountability. If your organization is fairly new, financial management may be an obstacle, mainly if you apply to a national funder. In this case, consider engaging in a fiscal sponsorship relationship. Your organization will still be responsible for understanding and conducting ethical business practices consistent with IRS regulations, all applicable laws, funder restrictions, and fiscal sponsor policies. However, a fiscal sponsor will allow you to apply to funders you might otherwise not consider. The formal name for such a relationship is Pre-Approved Grant Relationship Sponsorship. For more information, check out the National Network of Fiscal Sponsors.

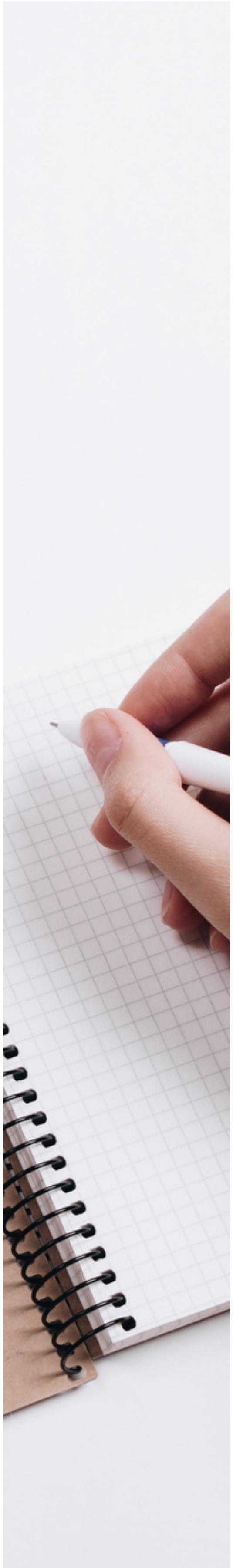
Government Grants or Loans

Government agencies at all levels rely on nonprofit organizations to address social issues and deliver publicly funded social and cultural programs and services. Government support for your work comes in several forms: surplus property donations, contracts, technical assistance, and grant awards.

Local governments (tribes, towns, cities, counties, boroughs), state governments, and the federal government all provide different levels of support. You may steer clear of federal support if you are a young organization. Securing support from local and state governments will help prepare you for going after those big federal dollars in the future, so it is a good place to start.

GrantStation Members can access our website's U.S. State Grants & Loans section and the Canadian Government Grants & Loans section. These sites include a listing of agencies that provide support in the form of grants, loans, contracts, technical assistance, and more.

Many local and state governments have programs that provide used surplus equipment and vehicles. Some of these items are free, while others are up for auction. You may never tap into these sources, but it is wise to know what is available and to get your organization on their mailing list. For example, a Google search using "Federal Surplus Property Idaho" will bring up this page. Or GrantStation Members have access to state surplus opportunities in our website's U.S. State Grants and Loans section.



Government Grants or Loans

A contract is a vehicle both federal and state governments use to purchase products or services that are for the direct benefit and use of a government agency. It is a legally binding agreement. Contracting with a government agency has a number of pros and cons. On the plus side, the pay for the work done is competitive, and the potential for renewing is high once the contract has been awarded and you demonstrate you can do the work.

On the downside, there is a ton of paperwork that needs to be completed just to get into the system. Job security can be an issue if your nonprofit relies on government contracts and you must follow rigid regulations. Contracting is something to consider, but not if your organization is fairly inexperienced.

Technical assistance, also known as “TA” and commonly referred to as consulting, is the process of providing targeted support to an organization with a development need or problem. It is an effective method for building the capacity of an organization.

Both federal and state agencies may provide technical assistance to help grant-seekers or grant awardees improve their ability to manage grant programs—such as training on project monitoring and evaluation. Agencies provide technical assistance through various means, including one-on-one instruction, live group events, and web-based information/guidance. Agencies also tailor their assistance to the grantees' needs and objectives.

Government Grants or Loans

A government grant is a financial award given by an agency for a beneficial project.

The grantee is not expected to repay the money but is expected to use the funds from the grant for their stated purpose, which typically serves some larger charitable good.

Again, federal government grants can be quite tedious in terms of the application process and management.

However, you may want to consider such support as your organization grows. You can search for federal grants and contracts using the Grants.gov online portal. GrantStation Members can also use the U.S. Federal Grants and Loans section.

Capital Campaigns

Capital campaigns are intense fundraising efforts designed to raise a specific amount of money within a defined time period to build an organization's assets and capacity.

They typically raise much more than an organization has ever raised in an annual campaign. You can use a capital campaign to renovate or build new facilities, fund special projects requiring capital investment, build capacity, and increase endowments.

Capital campaigns invite donors to make special gifts over and above the recurring, annual operating gifts they make to an organization. Most established nonprofits conduct a capital campaign every 10 to 15 years, so this type of fundraising should not be integrated into your overall funding plan until your organization is at least a decade old.

You can read a lot more about capital campaigns in this article published by Capital Campaign Pro. It's a great resource that explains the basics of a capital campaign.

Planned Giving

According to Wikipedia, planned gifts are an "area of fundraising that refers to several specific gift types that can be funded with cash, equity, or property." A planned gift is a contribution that is arranged in the present and allocated at a future date. Commonly donated through a will or trust, planned gifts are most often granted once the donor has passed away.

The United States is experiencing an extraordinary time as Baby Boomers, the generation of people born between 1944 and 1964, are expected to transfer $84.4 trillion through 2045—with $72.6 trillion in assets transferred to heirs, while $11.9 trillion will be donated to charities.

This jaw-dropping amount has led many journalists and financial experts to refer to the gradual event as the "great wealth transfer."

With this unprecedented trend, it could be a great opportunity for your organization to explore planned giving strategies. Donor Search provides a comprehensive guide about planned giving if you'd like to learn more.

In Summary

Most experienced fundraisers agree that nonprofits that are fairly new—say under five years old—will often find that their most profitable means of securing the funds they need to do their good work comes through individual small donors, in-kind contributions of products or services, special events, and individual major donors. Adding solicitations of local and regional businesses is also a successful approach once an organization is a few years old and has started building a name for itself and its work.

And, of course, approaching community foundations and giving circles for grants is also worthwhile for new organizations.

With all your funding streams, recognize that it all comes down to asking. Keeping these programs small and manageable at first will allow you to take the time to make a careful ask of each potential donor, whether it is a business, an individual, a government agency, or a foundation.

GrantStation is committed to helping nonprofit organizations secure the funding they need to carry out their missions. As such, the robust Online Education lineup offers free and fee-based webinars on all these fundraising strategies. When you attend a GrantStation webinar, you'll benefit from the guidance of our expert presenters, who have a combined 300 years of experience in the nonprofit arena. Every session will provide you with practical tools and techniques to increase your organization's success. Join the over 17,000 individuals who have participated in GrantStation's Online Education!

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Your Fast Track To Funding

Diversifying Funding Streams Decision-Making Guide

Use this guide to identify the best funding strategies for your organization. Identify a score for each item (e.g. high, medium, or low OR on a scale of 1-5, etc.).

	Initial Investment	Human Resources	Time	Level of Competition	Return on Investment
Individual Donors					
In-Kind Contributions Program					
Special Events					
Earned Income					
Business Donations					
Corporate Giving Programs					
Foundation Grants or Loans					
Government Grants or Loans					
Capital Campaigns					
Planned Giving					

A big thank you to GrantStation for this guide!

But maybe you need to know more about how to start a nonprofit organization.

Or perhaps you're looking for some tips on nonprofit marketing or strategic planning.

Whatever issue or question you might have, chances are there's a nonprofit resource right here waiting to help you and your organization succeed. Nonprofit Hub gives you the latest tools and advice all in one spot so that you can use your time to focus on your mission.