

managing the margin

...strategies for generating new revenue and controlling costs

OCTOBER 2003

FEATURED FOCUS

Fundraising for Today's Tough Economic Times

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Philanthropic giving can be an important source of nonoperating revenue for not-for-profit hospitals facing eroding operating margins and declining investment income. On average, it takes 20 cents to raise one dollar in a mature development program—an excellent rate of return. Yet many providers are reluctant to expand fundraising efforts in today's slow economic climate. Even though philanthropic giving to hospitals and health systems took a major hit in 2002, this revenue source still measures in the billions of dollars. What's more, recent indicators show early signs of a recovery on the horizon.

An Optimistic Outlook

The Association for Healthcare Philanthropy (AHP) estimates that U.S. hospitals and health systems received \$5.5 billion in 2002, a decrease from an estimated \$8 billion in 2001. Although this drop is dramatic, 2002 giving remains above the levels seen in the early '90s. The association cites the economic downturn as the principal reason for the

2002 decline, primarily resulting from reductions in gifts of appreciated property and earnings on endowments and investments.

The big news? AHP sees this trend reversing in 2003. Several forces suggest a cautiously optimistic outlook for fundraising over the remainder of the decade.

A strong donor base. A vibrant economy and strong stock market gains fueled a tremendous accumulation of wealth in the '90s. Although some of this wealth has eroded, a large number of affluent individual donors, new family foundations, and the potential for substantial estate gifts in intergenerational transfers of wealth remain. A recent Boston College Social Research Institute study concluded that despite the economic downturn, its 1999 projection that a wealth transfer of at least \$41 trillion will take place over the next 50 years remains valid.

Shifting interests.

Following September 11, over one billion dollars was given toward disaster

relief and community redevelopment. Some philanthropists, foundations, and corporations may shift their giving back to health care and other sectors as these relief and redevelopment efforts progress.

Governmental support.

Legislative and regulatory changes are under way that could help to reinvigorate stalled philanthropic giving. The Senate and House of Representatives recently passed similar bills, the Charity Aid, Recovery and Empowerment Act of 2003 (CARE Act S. 476) and the Charitable Giving Act (H.R. 7), which contain important fund-raising provisions. In addition, initial confusion over consumer privacy regulations under HIPAA put some hospital fund-raising efforts on hold.

Recent clarifications permitting the use of basic contact information may stimulate the renewal of campaigns.

Opportunities Available

When it comes to fund-raising, diversification of efforts is important.

Organizations successful at raising funds tend to supplement event-based activities with seeking major gifts, developing foundations, and establishing planned giving.

Fund drives. Events such as golf outings, galas, or silent auctions can build a strong contact base, offer a public-relations boost, and provide a forum for donor recognition. Unfortunately, these events can be expensive and typically raise a few hundred thousand dollars at most. (Note: There are exceptions. The FedEx St. Jude's Classic, raises over \$1 million annually for the St. Jude's Children's Research Hospital in Memphis, Tenn.)

For the real action in philanthropy, hospitals should explore major gifts, foundation grants, and planned giving. Charitable giving from bequests and foundations increased at double the rate of individual gifts in the late '90s. Bequests and corporate donations are still increasing today, although at a slower pace.

Gifts. Major gifts frequently are tied to program or facility development and

Fundraising: Fact or Fiction?

There's value in volunteers.

Fact. Involvement drives income. To raise a dollar from special events, it costs \$0.50 to \$1.00; from phone-a-thons, \$0.20 to \$0.40; from direct mail, \$0.30 to \$1.20; and from personal involvement of volunteers, \$0.07 to \$0.15. Source: Jerold Panas, Linzy & Partners, Chicago, Illinois.

It's best to stick with tried-and-true strategies.

Fiction. Don't be afraid to try new avenues from time to time. For example, does your foundation have a Web presence?

Nearly one-third of the \$2.35 million raised by the 12th Annual Y-ME RACE Against Breast Cancer this past year came in on-line.

Patients equal proceeds.

Fact. About 65 percent of the funds raised by hospital foundations come from their former patients, according to the Association for Healthcare Philanthropy. For guidance on compliance with HIPAA's privacy rules during patient-directed campaigns and answers to frequently asked questions, visit the association's web site at www.go-ahp.org.

often include naming opportunities. For example, American Family Children's Hospital at the University of Wisconsin Hospital and Clinics in Madison was established with a \$10 million gift from American Family Insurance.

Similarly, the F. F. Thompson Hospital in Canandaigua, N.Y., received a \$5 million donation from donor B. Thomas Golisano to create the Golisano Center for Emergency and Diagnostic Medicine.

Foundations.

Foundations may be a good entry point for struggling development efforts. Although foundations represented only 11.2 percent of total giving in 2002, they exist to give money. Also, they have specific guidelines that provide structure to the process, and grant officers can answer questions along the way. In addition, working with a foundation can be less intimidating for individuals unaccustomed to asking for donations.

Most foundation grants to healthcare organizations are relatively small. However, some foundations give major gifts. The Starr Foundation recently donated \$15 million to the Hospital for Special Surgery in New York City as part of a \$110 million campaign to expand the hospital's research activities. In 1997, the Moody Foundation donated \$32 million to endow Transitional Learning Center, a

Galveston, Tex.-based head injury rehabilitation facility.

Planned giving. Planned giving encompasses donations from an individual's estate, including cash bequests or gifts of stock or life insurance. As baby boomers transfer wealth to the next generation, planned giving is expected to grow substantially from the 2002 level of 7 percent of total philanthropic gifts.

Other strategies. It's also useful to stay on top of emerging strategies. For example, Internet-based strategies for reaching fundraising constituents are just starting to gain momentum. Nearly one-third of the \$2.35 million raised by this past spring's Y-ME RACE Against Breast Cancer came in on-line.

Finding the appropriate mix of strategies is challenging. The costs of different solicitation strategies vary by institution, market, and activity.

Fundraisers can expect to spend as much as \$1.50 to raise \$1 on a direct mailing to acquire new donors. Conversely, fundraisers can spend as little as 10 to 20 percent of the total dollars raised from capital campaigns and corporate and foundation solicitations. Successful fundraisers manage their portfolio of fundraising strategies to create a steady stream of revenue for their organizations each year.

Connecting with Donors

Finding the right hook for a donor is key to successful fundraising. Common connections include community pride, a partic-

Hospital and Health System Fundraising

Modest Involvement in Philanthropy

- Event based (golf outings, galas, etc.)
- Hospital auxiliary giving
- Capital campaign

Focused Emphasis on Philanthropy

- Capital campaign
- Naming opportunities
- Endowment

Philanthropy a Top Priority

- Aggressive, ongoing process of solicitation
 - Major gifts
 - Foundation support
 - Planned giving

Fundraising as a Percentage of Net Operating Revenue*

<0.5%



Most U.S. hospitals/systems

1-2%



A growing proportion of hospitals/systems

3-5+%



Less than 10% of hospitals/systems

* Percentages are approximate and are intended to suggest order of magnitude of opportunity. Based on database of HS&S clients fundraising and overall national giving percentages.

Source: Health Strategies & Solutions, Inc., Philadelphia.

ular health topic, or affiliation with a board member or physician. A hospital that is viewed as an important part of the community has a good chance of attracting donations from civic-minded leaders and organizations based in the region. A donor whose spouse died of cancer may have an affinity for a project associated with a cancer center. Also, the power of board members and physicians as philanthropists cannot be underestimated. A credible, energetic physician supporting a program is an incredible asset to meetings with a foundation or an individual donor. In academic settings, millions of dollars can be raised in honor of a faculty member

who is retiring. Successful development professionals explore these connections and build relationships with potential donors before asking them to support a particular opportunity.

Properly positioning the message is important, too. An increasingly sophisticated donor base requires a customized and resource-intensive approach to meet donor expectations. Yesterday's donors supported a hospital with a good image that developed a personal connection with them as a patient or through a board member or physician. Today's donors want all of these things—plus detailed information about the project, demonstrated

outcomes, and naming opportunities.

Taking the Plunge

The water is definitely a little icy, but many hospitals are taking the plunge to increase fundraising efforts. To be successful, however, fundraising needs to be ingrained in day-to-day culture. Managers creating business plans for a new service need to build in the monitoring and evaluation mechanisms that donors require. Senior management, physicians, and board members need to focus on making connections to expand the constituent base. Leaders need to be willing to ask for the multi-million-dollar gifts. Also,

individual project champions must be willing to coordinate efforts to avoid soliciting the same donor for multiple projects. Most importantly, the organization must be willing to make a substantial, sustained investment in development infrastructure. ■

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