



# Money for Good

The US Market for  
Impact Investments  
and Charitable Gifts  
from Individual Donors  
and Investors

MAY 2010



# The Motivation for the Money for Good Project

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It is our nature to see the world based on our own context, experiences, and points of view. People in all walks of life struggle with this bias every day. How can a new product fail when you and your cohort believed that it was a great idea? The need to understand the world as it is – not as we wish it were – has caused primary market research to become a multi-billion dollar industry.

The motivation behind the Money for Good project was to seek the ‘voice of the customer’ for charitable giving and impact investing. This perspective has been lacking in these sectors to date. As the Hewlett Foundation and McKinsey & Company noted in their recent report “The Nonprofit Marketplace,” there is a need to “invest in research that clarifies donors’ motivations, needs, and decision-making criteria.”<sup>1</sup>

With this report we have attempted to address that need, and to build a thorough understanding of the behaviors and motivations of Americans with respect to charitable giving and impact investing.

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1. “The Nonprofit Marketplace: Bridging the Information Gap in Philanthropy”, The Hewlett Foundation and McKinsey & Company, 2008



# The Goal and Structure of the Money for Good Project

The goal of this project was to understand US consumer preferences, behaviors, and demand for impact investment products and charitable giving opportunities (together, these make up the “money for good” market), and then to generate ideas for how for- and nonprofit organizations can use this information to drive more dollars to organizations generating social good.

We structured the project around three key questions related to this overall goal:

- 1. How can nonprofits more effectively obtain donations from individuals?**
- 2. How can a greater share of donations go to the highest performing nonprofits?**
- 3. What is the market potential for impact investing and how can it be realized?**

*Note: We also looked at how these findings relate to people who donate or invest in developing countries, with a particular focus on support to international entrepreneurship. Those findings can be found in “Money for Good: Special Report on Donor and Investor Preferences for Supporting Organizations Working Outside the US”*



# Our Approach to the Money for Good Project

## WHO WE TARGETED

Individuals with household (HH) incomes over \$80K. These individuals represent the top 30% of US HHs in terms of income, and make 75% of charitable donations from individuals

We oversampled people with household incomes over \$300K, due to these individuals' disproportionate share of charitable contributions and investments

## HOW WE RESEARCHED

Used 3 sources of information:  
External research, to learn from previous work in the field

Qualitative research, consisting of focus groups and interviews with over 30 individuals, to test survey language and inform hypotheses

Quantitative research, consisting of an online survey of 4,000 individuals. This was the main focus of our research

## WHY SURVEY IS UNIQUE

Breadth and Depth: survey is unique both in the number of respondents and the amount of information it covered

High Net Worth<sup>1</sup>: half (2,000) of the respondents had HH incomes >\$300k, making this one of the most robust surveys of wealthy individuals

Behavioral Focus: survey looked at actions, not simply stated preferences. It also forced individuals to make trade-offs to mirror real life decision-making and minimize pro social responses

1. We refer to high net worth individuals throughout this report as individuals with HH incomes of greater than \$300,000, as this is one of the criteria to be an accredited investor



## Key Definitions

<b>Donations:</b>	Charitable donations by individuals to nonprofit organizations
<b>Impact Investments:</b>	Investments that have an <i>active</i> social and/or environmental objective in addition to a financial objective
<b>Money for Good:</b>	Charitable donations + impact investments
<b>Retail Donor or Investor:</b>	People with HH income between \$80k and \$300k. \$80k is the cutoff for the top three deciles of US HHs in terms of income
<b>High Net Worth Donor or Investor:<sup>1</sup></b>	People with HH income over \$300k, an income threshold for accredited investors. This represents the top 1.3% of US HHs
<b>Affluent Donor or Investor:</b>	Anyone with HH income over \$80k (retail + high net worth). This was the full scope of our research

1. Technically these are high income, not high net worth individuals. However, given the high correlation between income and assets and the fact that income is a more stringent measure of being an accredited investor, we have used the more common term "High Net Worth" in this report



## Project Team

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- The Money for Good project has been generously funded by the Metanoia Fund, the Aspen Institute of Development Entrepreneurs (ANDE), the Rockefeller Foundation, and the William and Flora Hewlett Foundation
- The project was led by Hope Consulting ([www.hopeconsulting.us](http://www.hopeconsulting.us)), with additional advice and services provided by Clavis Partners, Engage123, Compass(x) Strategy, and e-rewards
- The project ran from December 2009 – May 2010
- For more information on these results, please contact:
  - Hope Neighbor – Founder, Hope Consulting – [hope@hopeconsulting.us](mailto:hope@hopeconsulting.us)
  - Greg Ulrich – Project Manager, Money for Good – [greg@hopeconsulting.us](mailto:greg@hopeconsulting.us)
  - Julian Millikan – Survey Design, Money for Good – [julian@hopeconsulting.us](mailto:julian@hopeconsulting.us)
- The appendix contains additional information on the funders, partners and team



## A Final Note on This Report

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- This report summarizes the most important findings from our research
- In addition, we have developed recommendations for how various actors can use these findings to drive more dollars to organizations generating social good
- These recommendations are supported by the fact-base we have developed regarding the behaviors and preferences of donors and investors, but in some cases require additional research to properly vet the ideas
  - E.g., we found a demand for impact investment products with small minimum investments, and recommend that the sector look for ways to provide those cost-effectively. However, we can not state that it is in the best interests of any specific organization to develop these products without a thorough understanding of the costs and benefits associated with them
- We have noted areas where additional research is required throughout

# Agenda



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4. Realizing the potential of the impact investing market	p 59 – 88
5. Final thoughts and next steps	p 90 – 92
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# Increasing Charitable Donations From Individuals

## Key Findings

- A. There is \$45B of market opportunity, limited in part by high levels of loyalty in charitable giving
- B. Donors are generally satisfied with nonprofits, but cite being solicited too often as their key area of frustration
- C. Few donors do research before they give, and those that do look to the nonprofit itself to provide simple information about efficiency and effectiveness
- D. Behaviors matter: there are six discrete segments of donors with different primary reasons for giving
- E. Demographics don't matter: HNW donors behave similarly to others

## Recommendations – For Nonprofits to Improve Fundraising Capabilities

- A. Segment on behaviors, not demographics
- B. Tag and track your donors by segment
- C. Determine what segments are best for your organization, given your strengths
- D. Develop consistent outbound marketing that appeals to target segments
- E. Prioritize investments based on what will drive donor behavior
- F. Capture donors early
- G. Understand how to manage different segments when approached



# Increasing Donations to the Highest Performing Nonprofits

## Key Findings

- A. While donors say they care about nonprofit performance, very few actively donate to the highest performing nonprofits
- B. Changing this behavior will be difficult given donors' varied motivations for giving, their loyalty to the nonprofits to which they give, and the fact that they believe that nonprofits perform well

## Recommendations – To Increase Funding to High Performing Nonprofits

- A. There are three primary opportunities to improve the quality of giving:
  - 1. Closing the “care vs. act” gap
  - 2. Closing the “quality information” gap
  - 3. Closing the “good vs. best” gap
- B. The “Care vs. Act” and “Quality Information” gaps are the top priorities and can be addressed concurrently by
  - 1. Providing *simple information* donors will use
  - 2. *Pushing* information to the donors
  - 3. Building *broad awareness* around some select key messages
- C. The opportunity to close the “Good vs. Best” gap lies with the High Impact segment
- D. Foundations can also help direct more capital to high performing nonprofits by helping them to develop superior fundraising capabilities

# Realizing the Potential of the Impact Investing Market

## Key Findings

- A. Most individuals are open to impact investing, but need to know more
- B. There is \$120B of market opportunity, half of which is for smaller (<\$25k) investments; even the wealthy want small investments
- C. The opportunity is greater when positioned as investments, not alternatives to charity
- D. Once people get involved, their willingness to invest increases (ramp in effect)
- E. People discover & transact through their advisor
- F. The key barriers investors see relate to the immaturity of the market, not the social or financial qualities of the investment opportunities
- G. Overall, downside risk is more important than upside financial returns
- H. However, those general preferences don't apply to each investor. We found six discrete segments that have different priorities and motivations

## Recommendations – To Unlock the Impact Investing Market

### For organizations trying to unlock this market:

- A. Clarify what impact investing means
- B. Build awareness of impact investing and the opportunities available for investors
- C. Develop and disseminate information on impact investing to financial advisors

### For all organizations involved in impact investing:

- D. Structure products with small initial investments (<\$25,000)
- E. Tailor products and messages by segment, to appeal to different motivations
- F. Make opportunities accessible to investors
- G. Position these as investments, not as alternatives to charity
- H. Address barriers related to the markets' immaturity, which are consistent across segments

# Agenda



1. Executive Summary p 8 – 10
- 2. Increasing charitable donations from individuals p 12 – 34**
3. Increasing donations to the highest performing nonprofits p 36 – 57
4. Realizing the potential of the impact investing market p 59 – 88
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6. Appendix p 94 – 106



# Executive Summary

## Key Findings

- A. There is \$45B of market opportunity, limited in part by high levels of loyalty in charitable giving
- B. Donors are generally satisfied with nonprofits, but cite being solicited too often as their key area of frustration
- C. Few donors do research before they give, and those that do look to the nonprofit itself to provide simple information about efficiency and effectiveness
- D. Behaviors matter: there are six discrete segments of donors with different primary reasons for giving
- E. Demographics don't matter: HNW donors behave similarly to others

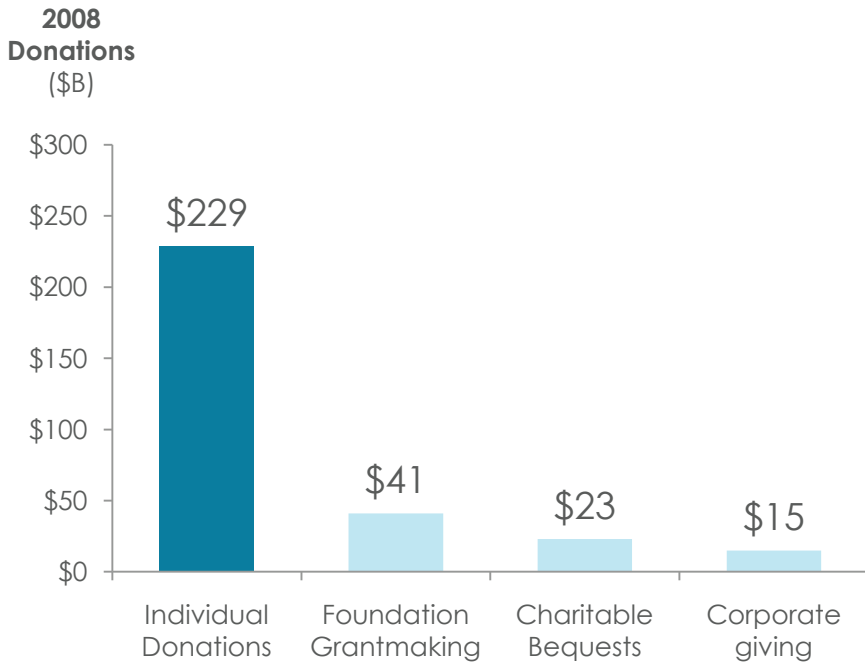
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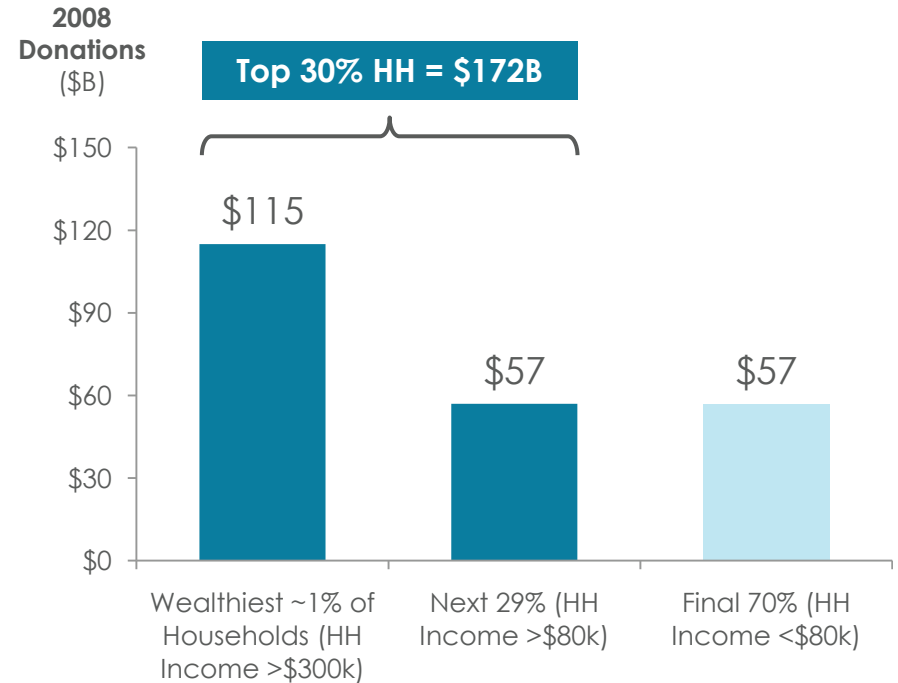


Nonprofit organizations receive a majority of their donations – \$172B – from affluent individuals

**75% of all charitable donations – ~\$230B – come from individuals**



**The wealthiest 30% contribute 75% of all individual donations**

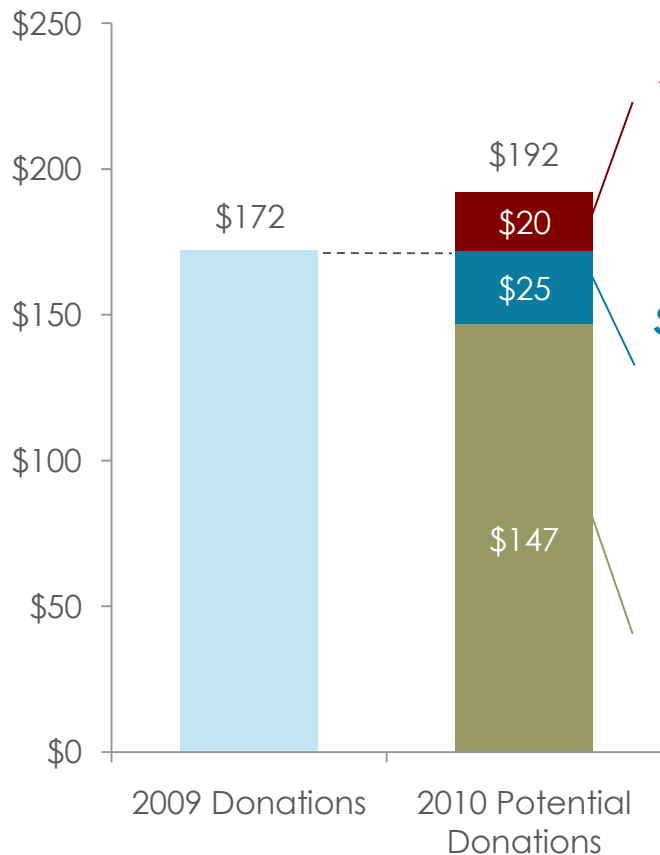


**This research only looks at the most affluent 30% of households (>\$80K in income)**

Source: Giving USA, 2008

# There is \$45B of charitable donations available for nonprofits from affluent individuals

Donations by top 30% of HHs (\$B)



**New Donations**  
*A minority of donors are willing to consider donating an additional **\$20B** over what they give today*

**Switchable Donations**  
*\$25B of donors' current donations are not loyal to an organization, and are therefore available to be switched to new charities*

**Loyal Donations**  
*The majority of donations are given to the same organizations every year*

**Market Opportunity**

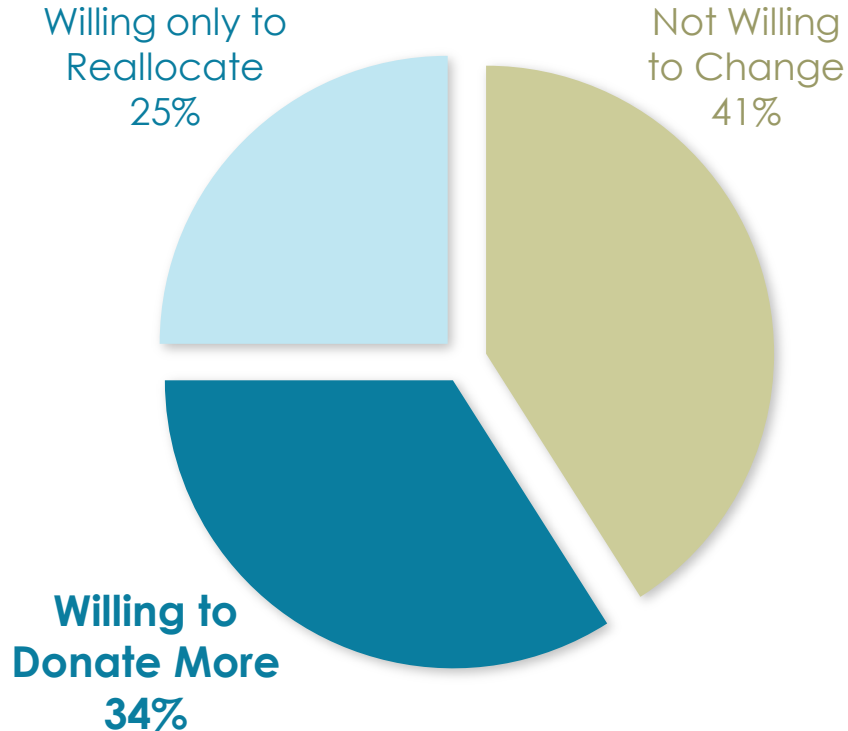
*The market opportunity is the sum of new and switchable donations:*

**\$45B**

Loyalty and switching determined based on donors' certainty around future gifts, and their historical giving patterns. Details in appendix

The \$20B of opportunity for “new donations” is concentrated in a third of donors

### Only 1/3 of donors were willing to donate more than they do today



- Question asked “if nonprofits improved on the areas you pay attention to, would you change your giving?”
- Only 34% of respondents said they would donate more
- Those 34% would donate \$20B more (after adjustments to reduce overstatements<sup>1</sup>)
- The 34% skew younger
  - 38% of respondents under 50 willing to donate more vs. 32% over 50

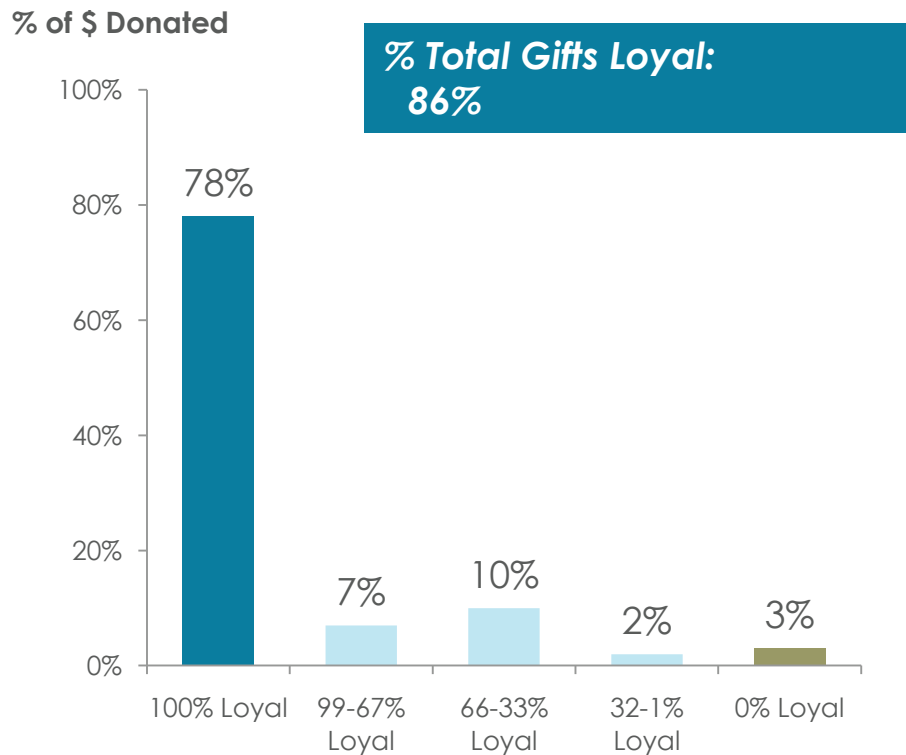
1. See appendix for details





# Donors are very loyal, leading to only \$25B of “switchable donations” (14% of total donations)

## The Majority of Donations are Loyal



- Loyalty was measured based on donors' certainty around future gifts, and their historical giving patterns<sup>1</sup>
- Almost 80% of all gifts made are “100% loyal,” meaning that there is a virtual certainty that these gifts will be repeated next year
  - More loyal than typical industries
- Overall, on a weighted basis, 14% of gifts are available, or “switchable”
  - Varies by income: 19% of donations by retail individuals are available, but only 11% of HNW donors' donations
- This leads to \$25B in “switchable” opportunity ( $\$172B * 14\% = \$25B$ )

1. See appendix for details

A key area of donor dissatisfaction is that donors feel that nonprofits solicit them too frequently

### Importance vs. Performance<sup>1</sup>

<b>Importance to Donors</b>	<ul style="list-style-type: none"> <li>• <b>Too frequent solicitations</b></li> </ul>	<ul style="list-style-type: none"> <li>• How org will use donation</li> <li>• % of \$ to OH</li> </ul>	<ul style="list-style-type: none"> <li>• Ease of donating</li> <li>• Leadership quality</li> <li>• Effectiveness</li> </ul>
		<ul style="list-style-type: none"> <li>• Direct use</li> <li>• Regular reports</li> <li>• Endorsements</li> <li>• Can get involved</li> </ul>	<ul style="list-style-type: none"> <li>• Prompt and sincere thanks</li> </ul>
	<ul style="list-style-type: none"> <li>• Innovative Approach</li> <li>• Contact w/ beneficiaries</li> <li>• Social events</li> <li>• Gifts</li> <li>• Recognition</li> </ul>		
	<b>Performance of Nonprofits</b>		

- For the most part, there is a high correlation between what donors say is important and how well they feel nonprofits perform
  - Ultimately a barrier to getting people to change behavior
- Donors are not happy with how often they are solicited
  - 60% said this was very important to them, but only 40% said they thought nonprofits did a good job
  - Consistent with external findings<sup>2</sup>
- This analysis is for donor views of nonprofits overall; it is useful for nonprofits to ask their donors how they perform specifically

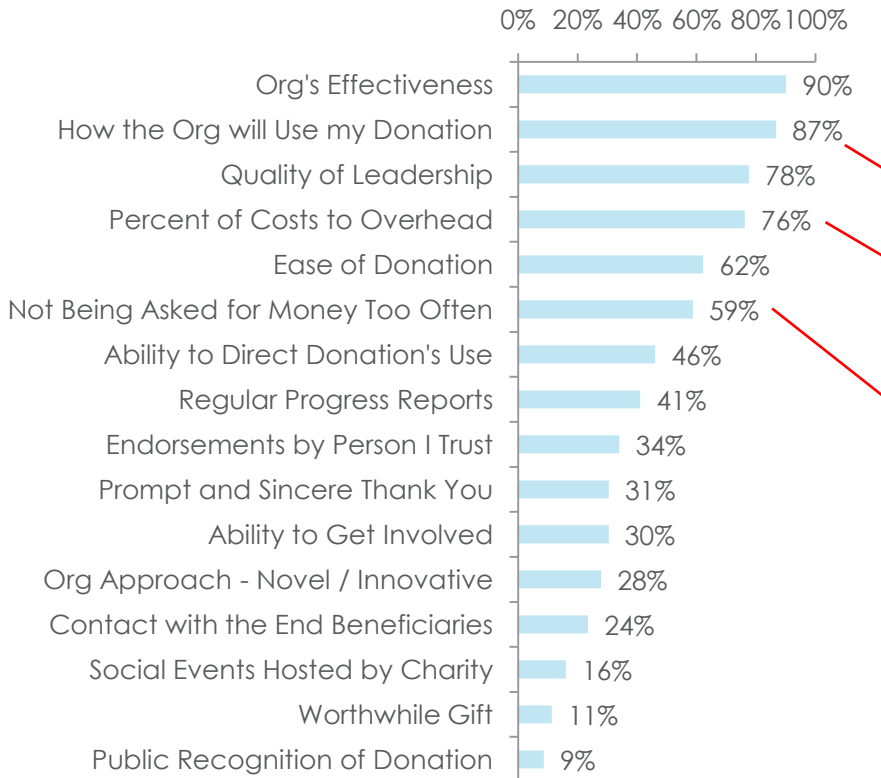
1. Donors were asked to rate the importance of various elements of giving, and the performance of the nonprofits to which they donated, on 1-6 scale  
 2. "2008 Study of High Net Worth Philanthropy," March 2009. Said #3 reason people stop donating to an organization is "Too Frequent Solicitation" (42%)

## B. DONOR SATISFACTION

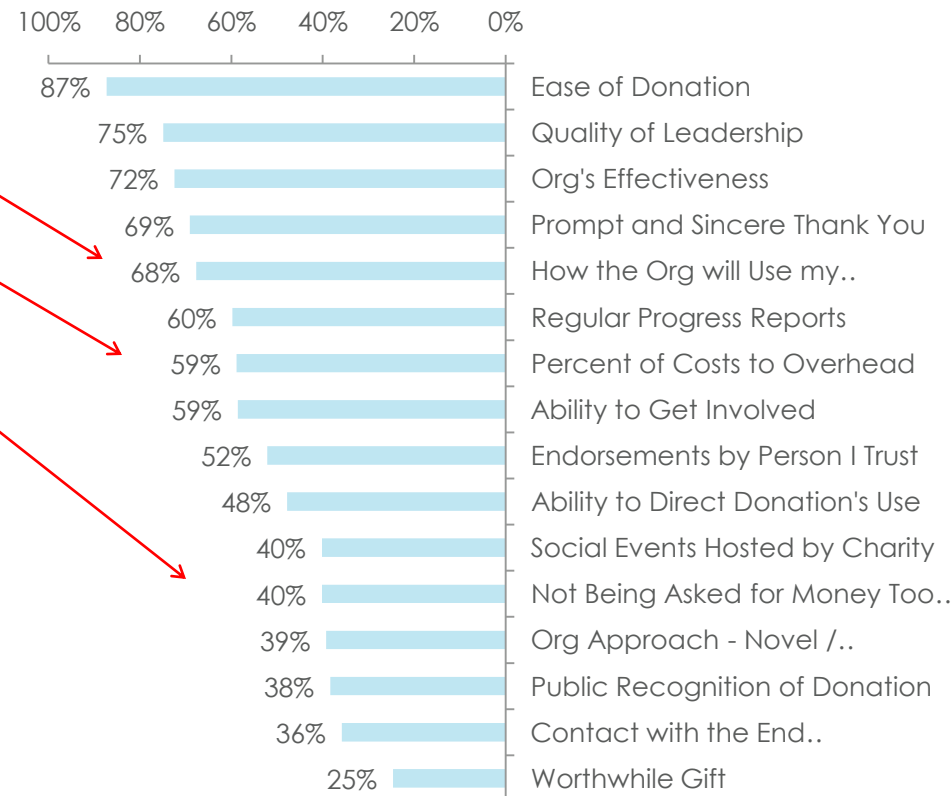
With a few exceptions, donors believe nonprofits perform well on the important elements of giving  
(Note: this is additional detail on previous page's chart)



### Donors' View of How Important Various Attributes Are When Giving to a Nonprofit



### Donors' View of the Performance of the Nonprofits to Which They Give

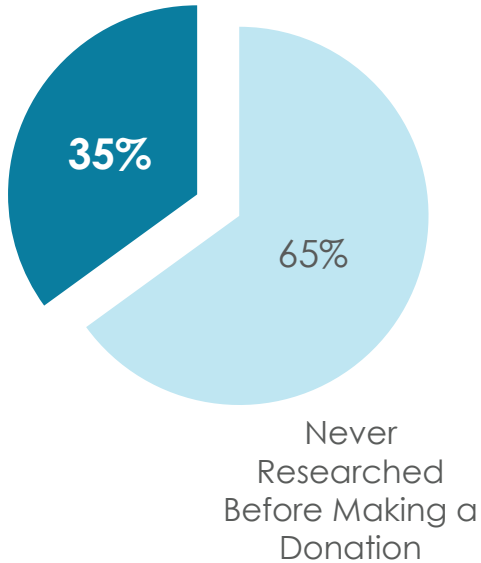




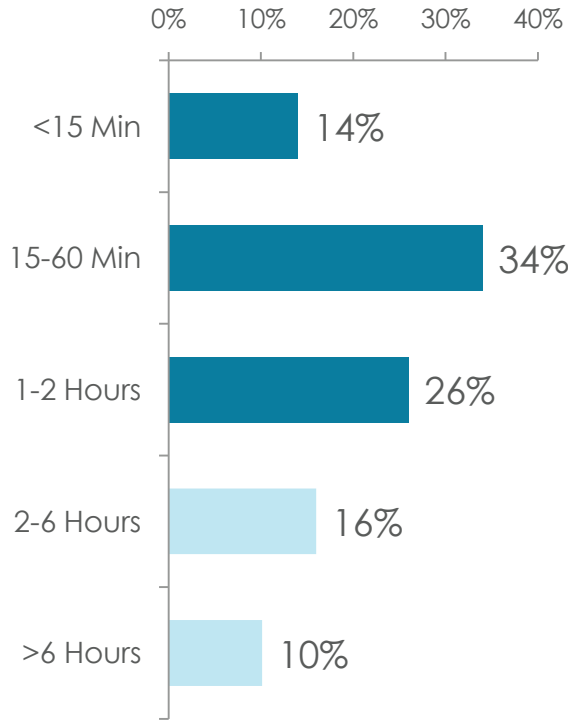
Most donors don't spend a lot of time researching, and those that do look for simple, digestible info

**Only 35% ever do research**

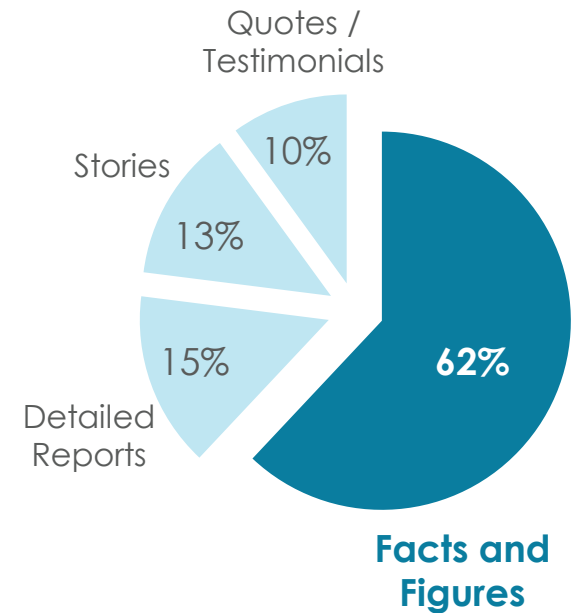
**Did Research on Any Donation in 2009**



**Of those, ~75% spend <2 hours researching...**

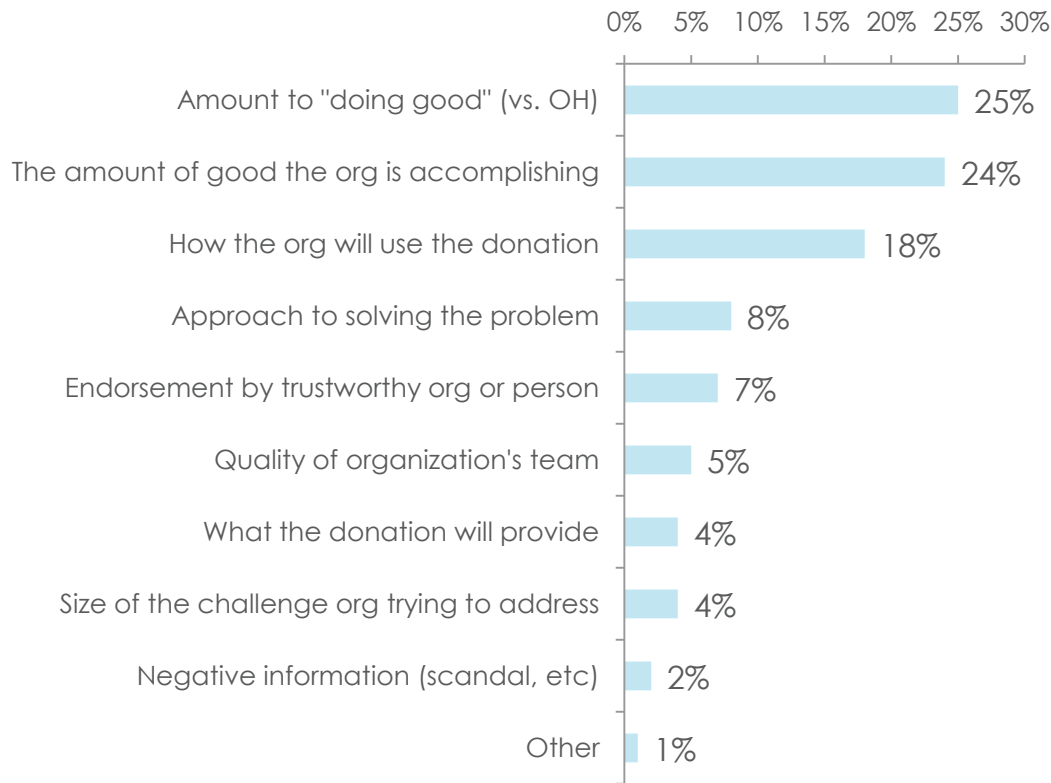


**...and they are looking for simple facts and figures**



Donors are looking for information on the efficiency and effectiveness of an organization...

**“Select the most important piece of information you sought out before giving”**

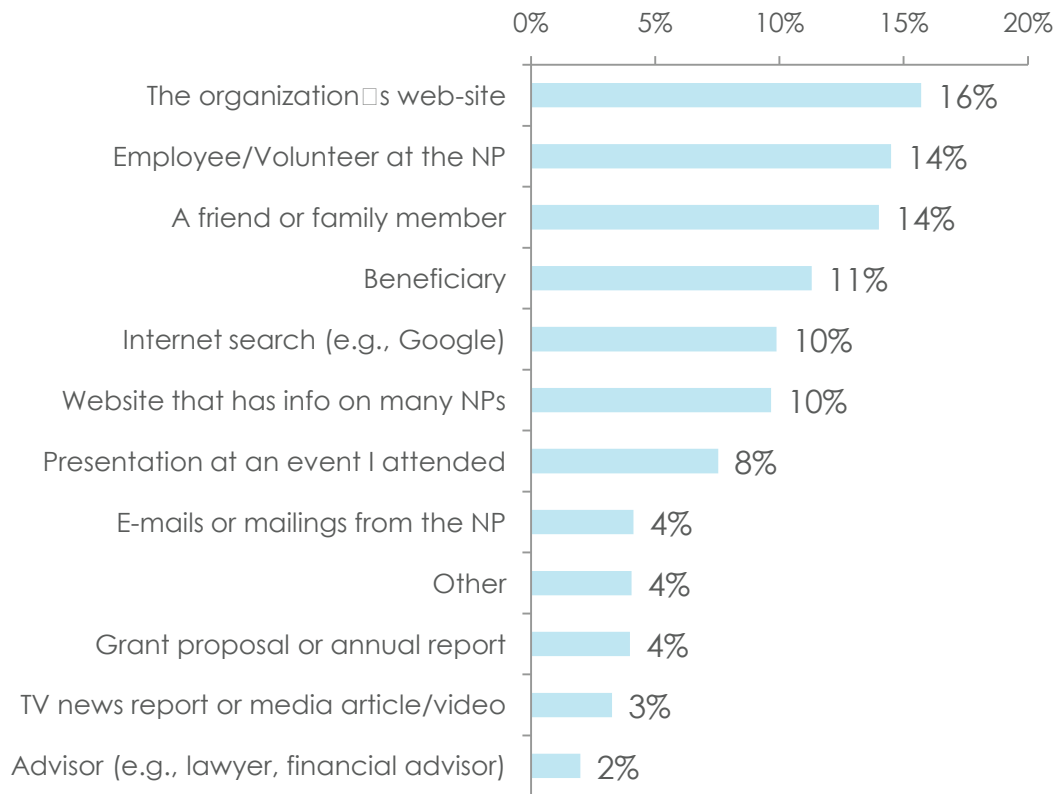


- For better or for worse, Overhead Ratio is the #1 piece of information donors are looking for
- In general, people are looking for comfort that their money will not be “wasted” (top 3 answers)
- People care about information on the organization more than information on the size of the problem (4%)



...and donors typically look to the organization itself to collect information

**“Please select the single most valuable source of information you used”**



- Many donors go directly to the organization (3 of top 4 responses)
- Only 10% use intermediaries that evaluate a wide range of nonprofits as their primary source of information
- If there was a strong demand for information, there would likely be more activity with internet searches and advisors



Donors are not alike. We found that, statistically, donors break out into six behavioral segments

### Repayer

*"I give to my alma mater"*  
*"I support organizations that have had an impact on me or a loved one"*

### Casual Giver

*"I primarily give to well known nonprofits through a payroll deduction at work"*  
*"I donated \$1,000 so I could host a table at the event"*

### High Impact

*"I give to the nonprofits that I feel are generating the greatest social good"*  
*"I support causes that seem overlooked by others"*

### Faith Based

*"We give to our church"*  
*"We only give to organizations that fit with our religious beliefs"*

### See the Difference

*"I think it's important to support local charities"*  
*"I only give to small organizations where I feel I can make a difference"*

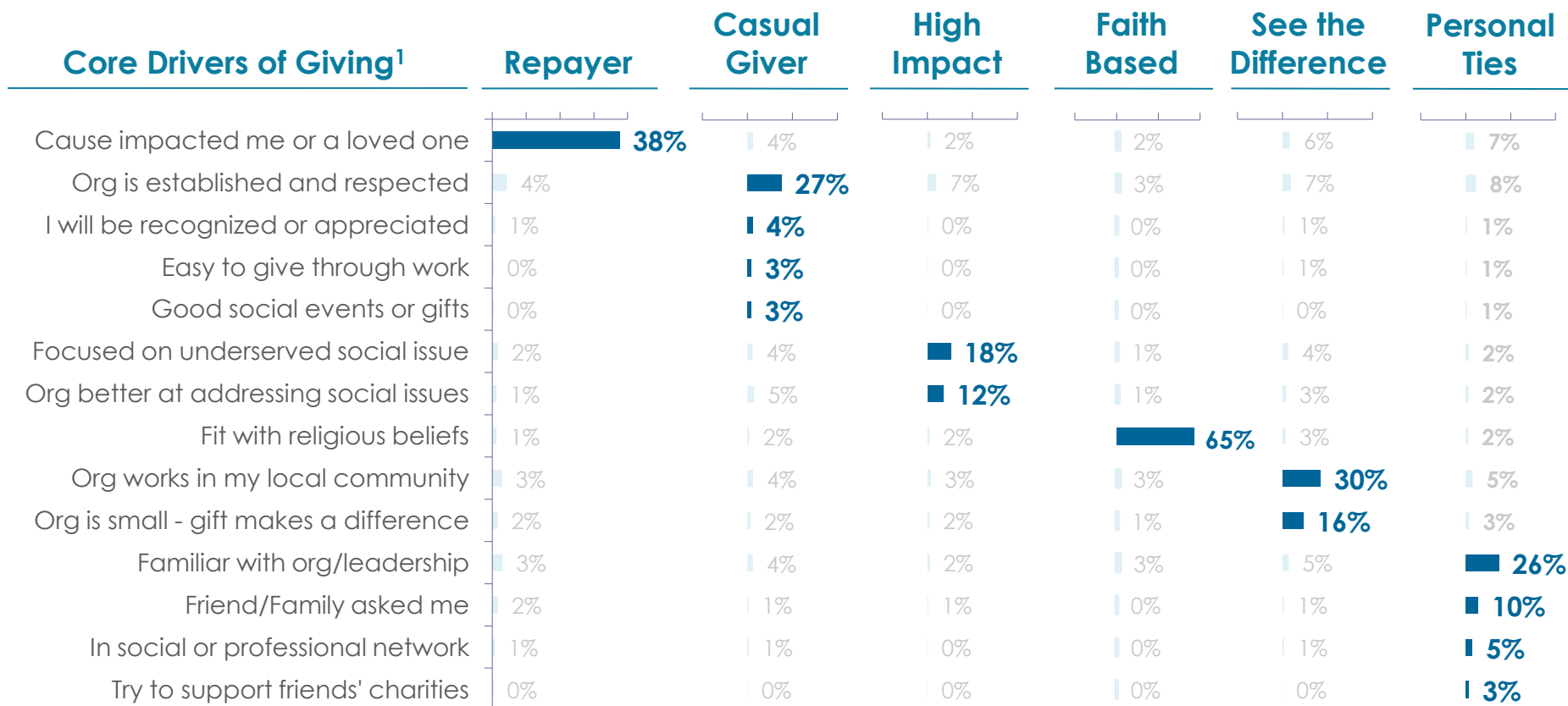
### Personal Ties

*"I only give when I am familiar with the people who run an organization"*  
*"A lot of my giving is in response to friends who ask me to support their causes"*

Note: Segments based on statistical analysis. See appendix for details



# Each segment has different motivations for giving



1. The segments were derived by grouping individuals who had similar priorities across these "Core Drivers" of giving. We tested for multiple segmentations (from 3-9 groupings) and found this breakout of six segments to be the most robust. The %'s represent the relative importance of each variable to each segment's decision making for charitable giving. "I care deeply about the cause" was important to all segments so was removed from the analysis (it's more of a table stake than a driver of segment-specific decision making). See appendix for further details on the methodology



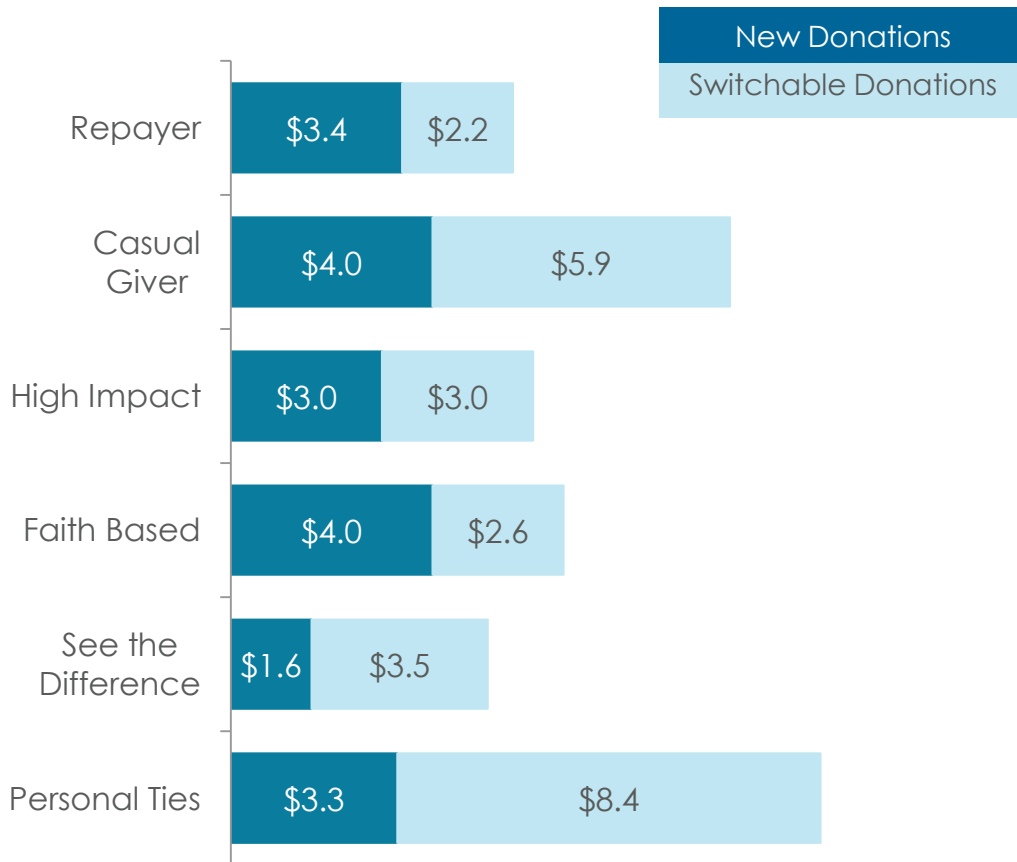
Repayer has the largest number of donors;  
Personal Ties has the largest amount of donations

	% POPULATION	% DONATIONS	MEAN DONATION <sup>1</sup>	MEDIAN DONATION <sup>2</sup>
Repayer	23%	17%	\$11,000	\$1,800
Casual Giver	18%	18%	\$15,000	\$2,500
High Impact	16%	12%	\$11,000	\$3,500
Faith Based	16%	18%	\$18,000	\$7,700
See the Difference	14%	10%	\$10,000	\$2,500
Personal Ties <sup>3</sup>	13%	25%	\$27,000	\$3,700

1. Refers to all donations. 2. Refers to all donations. Estimated as people entered their giving in ranges (e.g., \$1,000 - \$2,499) vs. directly inputting the amount. 3. The reason that Personal Ties has such a large % of donations is because, in our survey, a disproportionate # of people who gave >\$1M / year fell into this category. This may be unsurprising, as many other reports discuss the importance of personal connections for very high net worth donors

There is at least \$5B of market opportunity in each segment

### Market Opportunity by Segment (\$B)



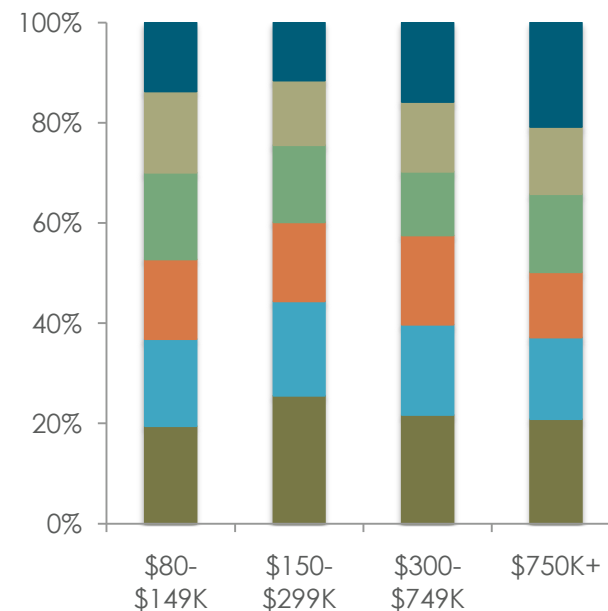
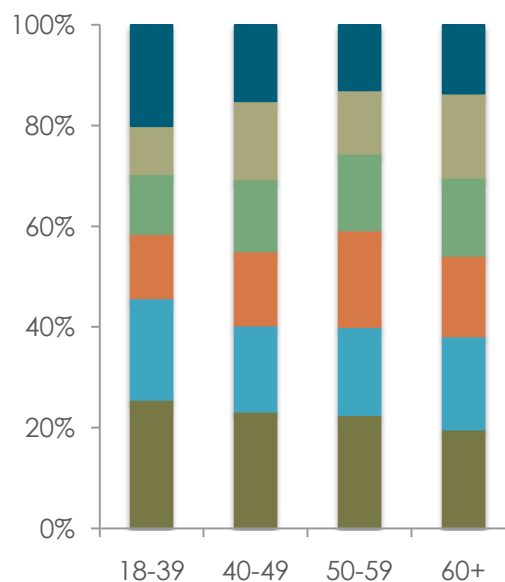
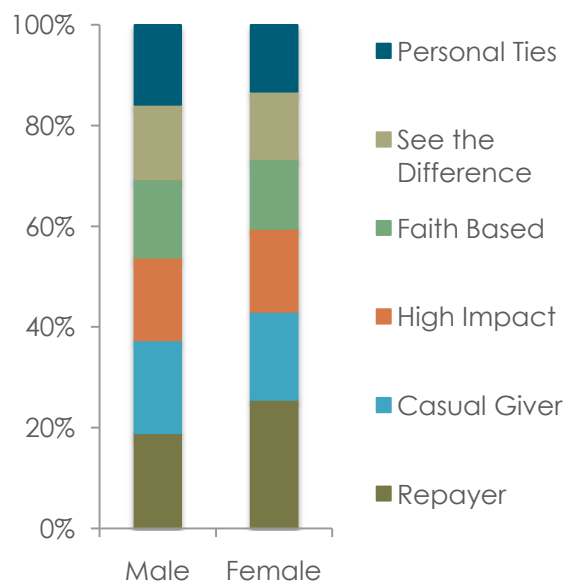
- Sufficient market opportunity exists in each segment
- Faith Based and Repayer are the most loyal segments (93% vs. 86% overall)
- The least loyal segments are Casual Givers & See the Difference (80%)
- The Personal Ties switching opportunity is driven by the high current donation per person

Segments don't vary significantly by demographics; demographics are not critical predictors of behavior

**Segment mix is similar across gender...**

**...age...**

**...and income**



Responses to other questions in the survey did not vary much by demographics – most importantly, **high net worth individuals responded similarly to everyone else**

Note: breakouts on this page are for the raw data in from the survey, before adjustments were made to rebalance for population demographics



# Recommendations for obtaining more donations from individuals by improving the donor experience

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- A. Segment on behaviors, not demographics**
- B. Tag and track your donors by segment**
- C. Determine what segments are best for your organization, given your strengths**
- D. Develop consistent outbound marketing that appeals to target segments**
- E. Prioritize investments based on what will drive donor behavior**
- F. Capture donors early**
- G. Understand how to manage different segments when approached**

## A. Segment on behaviors, not demographics

### Why Do This

- Nonprofits segmentations are often based on demographics, especially age and income
- However, differences in age and income do not point to differences in how donors give, or what they want
  - While it may be useful to spend more time with affluent donors because they are often willing to donate more, they should not be targeted differently
- It is more useful to segment based on what drives donor behavior, and would thus influence the message and approach for that type of donor

### How to Segment

#### Repayer

*"I support organizations that have had an impact on me or a loved one"*

#### Casual Giver

*"I give to well known nonprofits because it isn't very complicated"*

#### High Impact

*"I give to the nonprofits that I feel are generating the greatest social good"*

#### Faith Based

*"We give to organizations that fit with our religious beliefs"*

#### Personal Ties

*"I give when I am familiar with the people who run an organization"*

#### See the Difference

*"I only give to small organizations where I feel I can make a difference"*

## B. Tag and track your donors by segment

### Why Do This

- Because different donor segments respond to different hooks, it is important to know into which segment a current or prospective donor falls
- Segment tags can (and should) be tracked in an organization's donor database
- Determining which segment a donor is in is very doable; it can be as easy as asking a few behavioral questions for each donor (again, this can't be done based simply on demographics)

### How to Tag and Track (Illustrative Ex's)

Please answer the following three questions:

1. **Why do you donate to our organization?**
  - A. A loved one was afflicted by the disease
  - B. A friend asked me to
  - C. Donated at 25<sup>th</sup> anniversary event
  - D. ...
2. **What do you like most about our organization?**
  - A. Strong religious principles
  - B. More effective than similar nonprofits
  - C. ...
3. **How...**

<u>Name</u>	<u>Address</u>	<u>Donation</u>	<u>When</u>	<u>Segment</u>
John Doe	142 Oak St...	\$500	12/5/09	High Impact
Sue Kim	88 Chestnut...	\$250	9/15/09	Repayer
Jim Smith	42 Pine St...	\$75	1/1/10	Casual Giver
...				

## C. Determine which segments are best for your organization, given your strengths

### Why Do This

- Nonprofits can't be all things to all people, and certainly can't effectively market themselves as such
- The best way to set your organization apart from others is to be clear on your strengths, and market yourself accordingly
- There is sufficient headroom in each segment, so the available dollars should not dictate where a nonprofit focuses

### How to Pick Target Segments

- 1. Define what you stand for**
- 2. Assess what you do best, and what makes you distinct**
- 3. Look at your current donors – why do they donate to your organization, and into which segment do they fall?**
- 4. Now, look at the six donor segments – select those that are the best fit for your organization**

*Some potential examples:*

- *Susan G. Komen: Repayer, Personal Ties*
- *A Local Shelter: See the Difference, Faith Based*
- *TechnoServe: Repayer, Personal Ties, High Impact*



## D. Develop simple, consistent outbound marketing that appeals to target segments

### Why Do This

- Donors give for different reasons, and thus respond to different appeals
- Donors want simple information, and are not willing to do a lot of research
- While many donors want general performance information, and want to know how their gift will be used, different segments have different “hooks” that will inspire them to give
  - E.g., a hospital could focus on:
    - a) appealing to the families of current and past patients;
    - b) how they benefit the local community
    - c) their quality vs. other hospitals

### Some Ideas...

- Create outbound marketing approach that appeals to target segments, i.e.,
  - Channels for communication and asks
  - Look and feel of website and images
  - Consistency in all messages
- Communicate a few, simple messages
  - Simple story that appeals to 1-2 segments
  - Supported by a few key metrics
- Create brief summaries / asks for donors, nuanced by target segment

*When you donate to [org name], 99 cents out of every dollar go to help the end beneficiaries...*

*Do you remember the great times you had at \_\_\_ University? Well, now we need your help...*



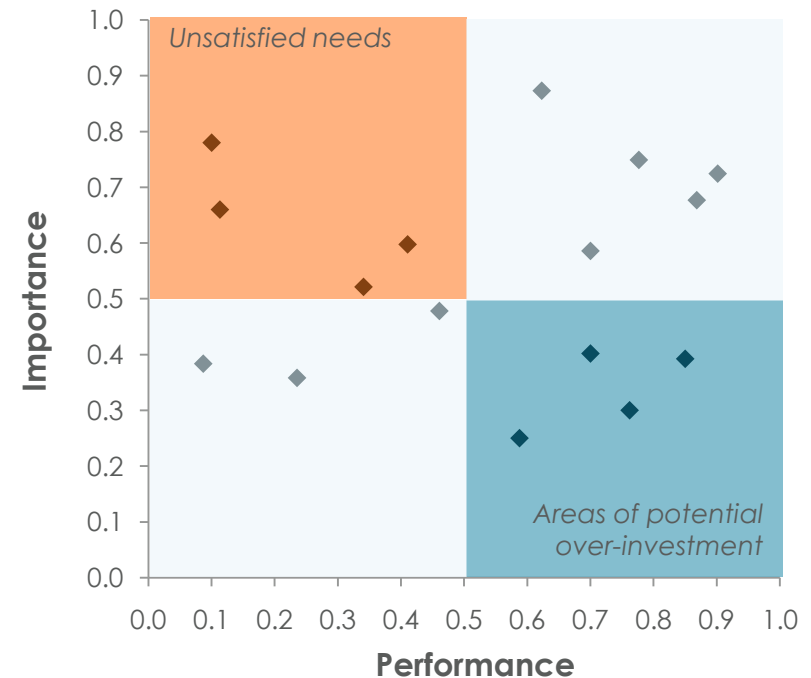
## E. Prioritize investments based on what will drive donor behavior

### Why Do This

- Nonprofits should only invest where it will change behavior – and should not invest where it won't
- Nonprofits need to understand what donors want and how donors feel that the nonprofit performs on those criteria
  - Nonprofits can attract more donors by improving on 'unsatisfied needs'
  - Nonprofits can save time and money by cutting back on areas of over-investment
- Requires being strict – “Will changing what we do here *really* cause donors to [no longer] give to us?”

### How to Prioritize Investments

*We measured the importance of various traits for the sector as a whole (see pages 17 - 18); nonprofits could survey their donors to see how they perform on each of those dimensions*





## F. Capture donors early

### Why Do This

- Most elements of donor behavior don't vary with age or income
- Further, donors are rather loyal, so:
  - Once they donate, they are yours to lose
  - If you don't have them once they've started to give, they are hard to convert
- So, while many nonprofits target wealthy, older donors, it may be better to target younger, less affluent donors that have earning potential

### Some Ideas...

- Engage young people who correspond with your target segments and have strong earning potential
  - Young donors program (e.g., Bravo Club)
  - Bring young, connected professionals to the Board (e.g., Young Associates Board)
- Because an organization's volunteers are disproportionately likely to give to that organization, create opportunities for young people to volunteer
  - Partner with firms with young professionals (banks, consultancies, technology, etc)
- Invest in the lifetime potential of donors, not just this year's potential





## G. Understand how to manage different segments when approached

### Why Do This

- Targeting and messaging to chosen donor segments is for outbound marketing
- However, when donors from 'non target' segments come to you, they should not be turned away
- As a result, it is important to have a clear set of talking points to use with each donor segment, not just your target segments, to maximize your ability to appeal to them

### How to Manage Different Segments

- 1. Develop 3 reasons why each segment should donate to your nonprofit, and communicate to all fundraisers**
- 2. Create a simple set of questions that you ask each prospective donor when you meet him/her**
  - Can be standard questions with responses that will assign each donor to a segment, e.g., "Why are you interested in our organization"? (See Rec #2)
- 3. Emphasize the messages appropriate for that segment**
- 4. Tag and track the donor over time**

# Agenda



1. Executive Summary p 8 – 10
2. Increasing charitable donations from individuals p 12 – 34
- 3. Increasing donations to the highest performing nonprofits p 36 – 57**
4. Realizing the potential of the impact investing market p 59 – 88
5. Final thoughts and next steps p 90 – 92
6. Appendix p 94 – 106



# Executive Summary

## Key Findings

- A. While donors say they care about nonprofit performance, very few actively donate to the highest performing nonprofits
- B. Changing this behavior will be difficult given donors' varied motivations for giving, their loyalty to the nonprofits to which they give, and the fact that they believe that nonprofits perform well

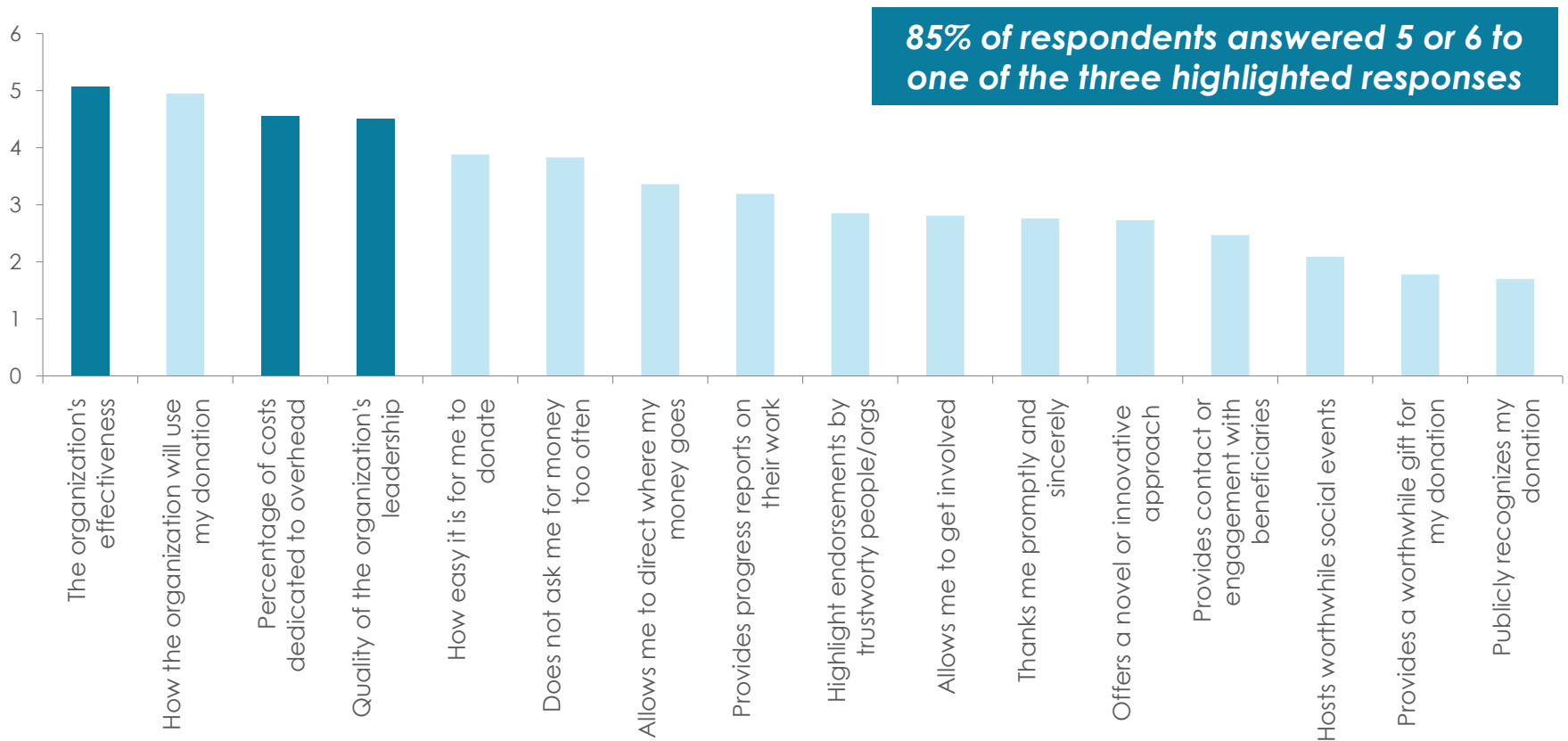
## Recommendations – To Increase Funding to High Performing Nonprofits

- A. There are three primary opportunities to improve the quality of giving:
  1. Closing the “care vs. act” gap
  2. Closing the “quality information” gap
  3. Closing the “good vs. best” gap
- A. The “Care vs. Act” and “Quality Information” gaps are the top priorities and can be addressed concurrently by
  1. Providing *simple information* donors will use
  2. *Pushing* information to the donors
  3. Building *broad awareness* around some select key messages
- B. The opportunity to close the “Good vs. Best” gap lies with the High Impact segment
- C. Foundations can also help direct more capital to high performing nonprofits by helping them to develop superior fundraising capabilities



The majority of people say that nonprofit performance is important...

**“How much do you pay attention to the following when giving to charity?”**

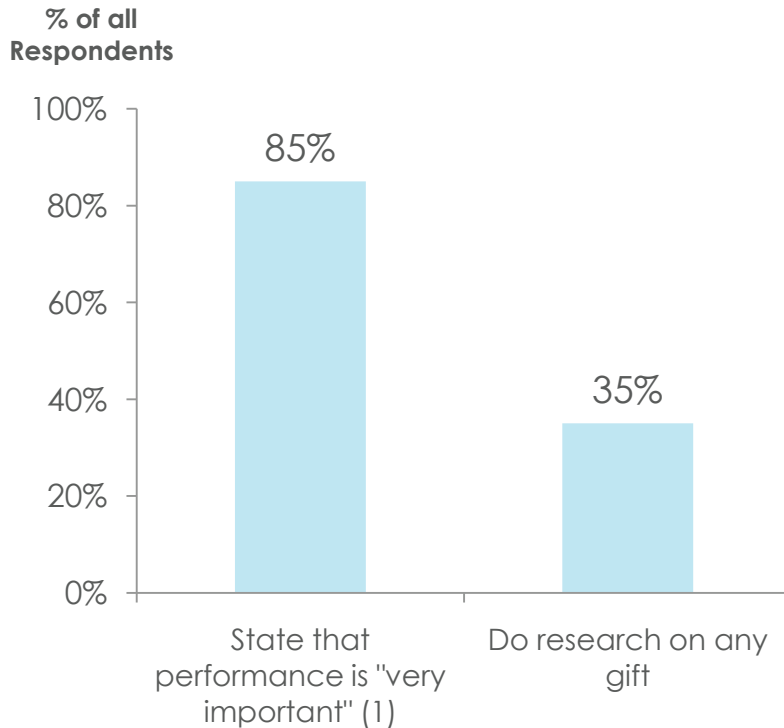


Average score from respondents on a 1-6 scale, where 6 = "I pay extremely close attention to"



... However, very few people spend any time looking into it...

## People say they care about nonprofit performance, but few look into it



## Comments from Focus Groups

"Giving to charity should be the easy thing in my life"

"I don't want to spend the time to do research"

"With known nonprofits, unless there is a scandal, you assume they are doing well with your money"

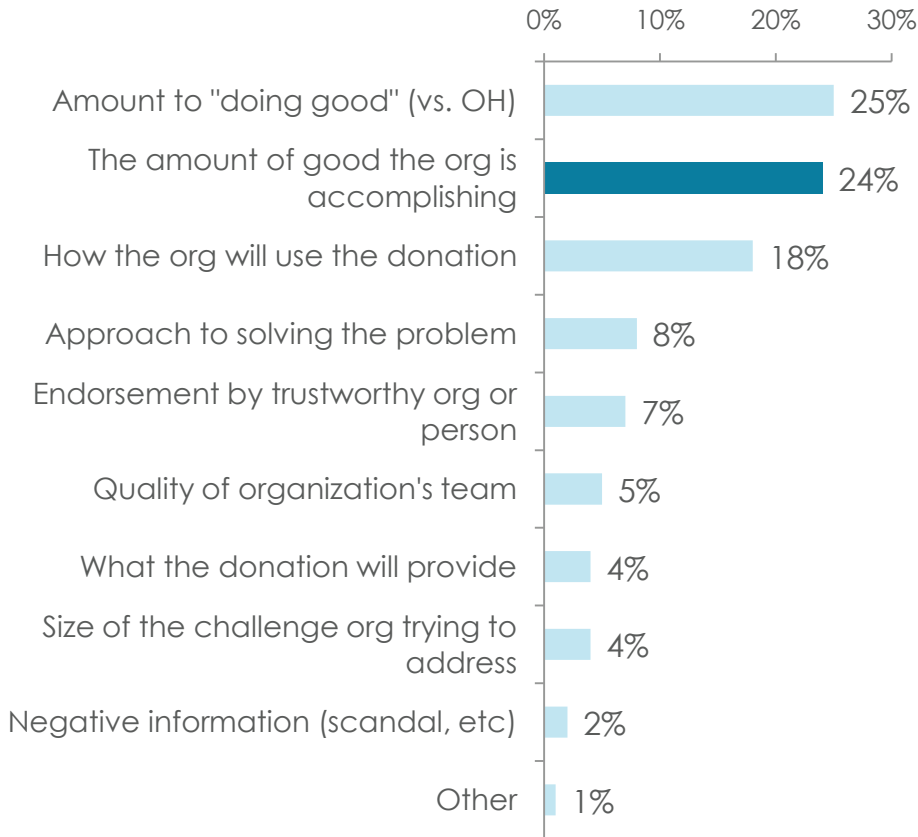
"[Third party validation]...would be another layer of effort for me. I would have to figure out whether the rating company is reputable or trustworthy"

1. % responding 5 or 6 on a 1-6 scale, where 6 = "I pay extremely close attention to"



... When they do research only a quarter are interested in the level of social impact an organization is having...

**“Select the most important piece of information you sought out before giving”**



**Comments from Focus Groups**

“I look at what percentage of dollars actually goes to those being helped. I will look that up if it is easy to find”

“I look for 25% or lower admin costs”

“It's too hard to measure social impact”

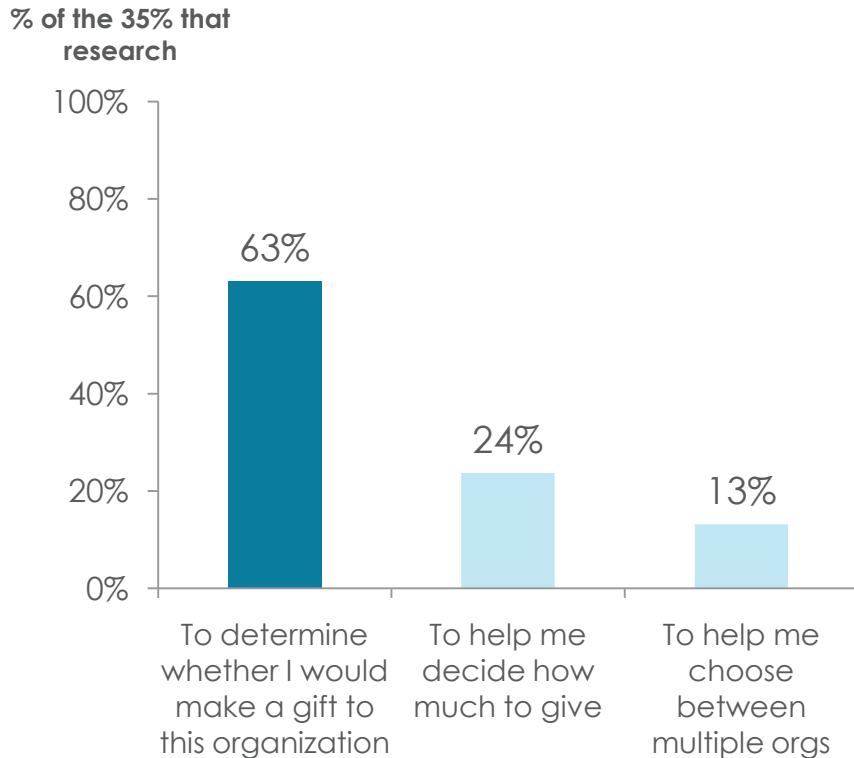
“I'm not a mini-foundation; don't treat me like one”





... and they use that information to validate their donation, not to choose between organizations

**For the 35% that do research, it is often to “validate” their choice of charity**



**Comments from Focus Groups**

“I just want to make sure my charities ‘hurdle the bar’, I don’t care by how much”

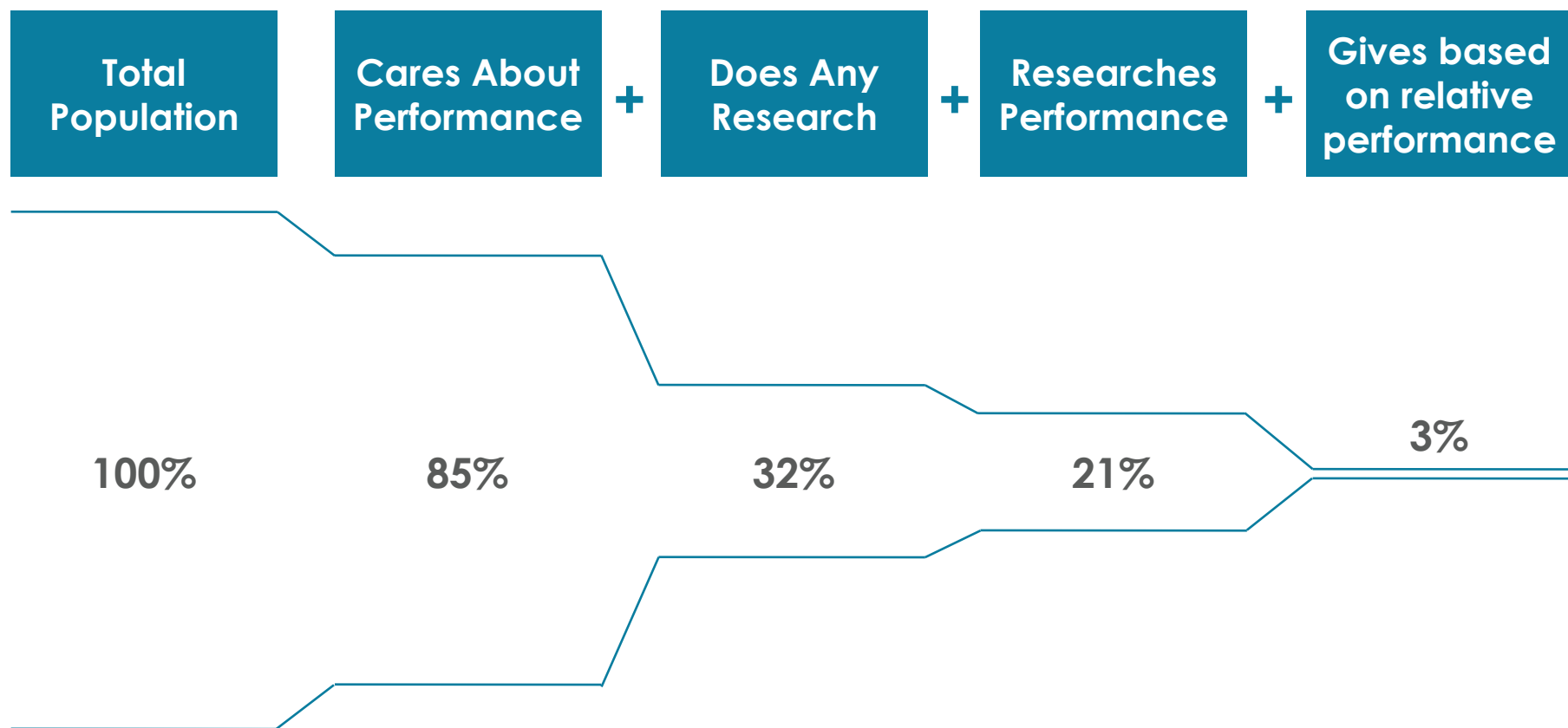
“I just want to ensure that I’m not throwing my money away.”

“I can’t determine which is the ‘best’ nonprofit, but I can find out if a nonprofit is bad”

“We give to faith based organizations if they are accredited by our church”



So, overall, only 3% of people donate based on the relative performance of a nonprofit organization



Note: %'s represent total people. So, while 35% research, only 32% care about performance AND research



## Changing donor behavior is an uphill battle

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- Sadly, the reality is that very few donors actively try to give to high performing nonprofits when they make their charitable contributions
- Changing these donors' behaviors will be challenging, in large part due to three critical barriers:

### **1. Donors don't give to 'maximize impact'**

"I give because it makes me feel good"

### **2. There is no 'burning platform' to motivate change**

"I don't research, but I am sure that the nonprofits to which I donate are doing a great job"

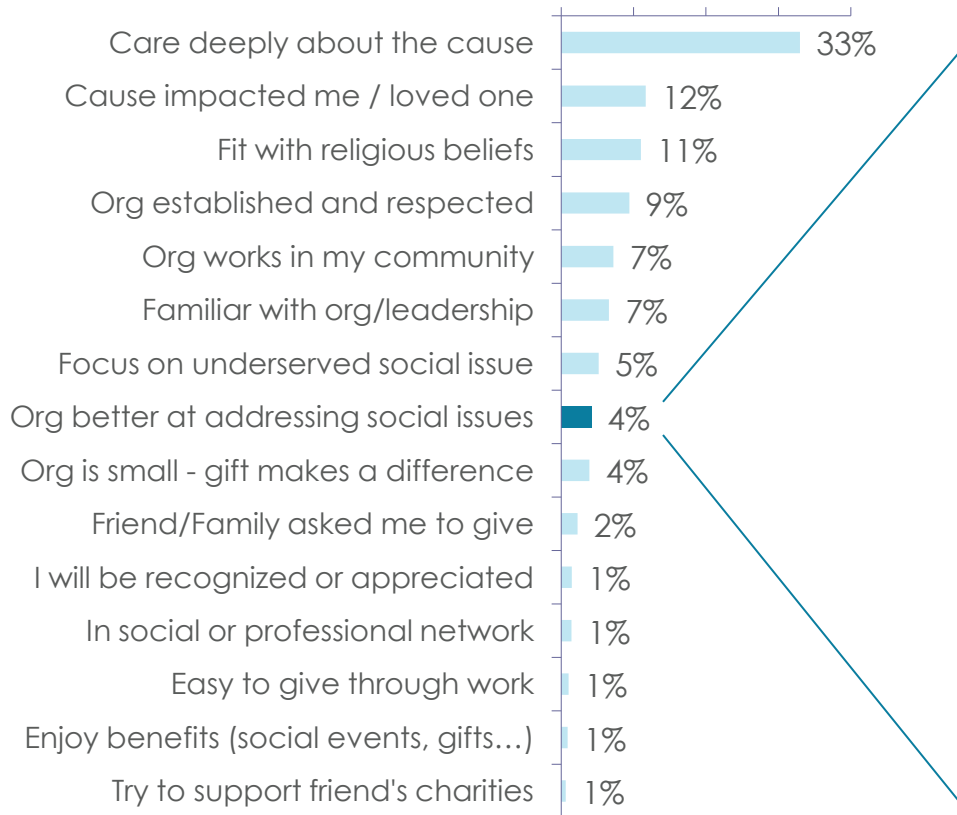
### **3. Donors are loyal**

"I give to the same organizations each year. Some metric won't change that"

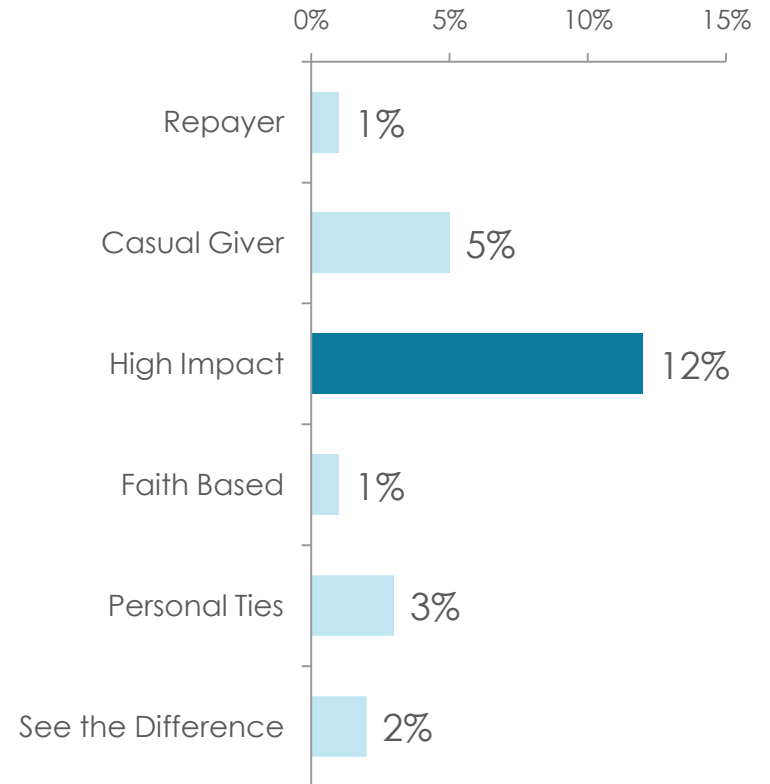


Donor's don't give to maximize their social impact. Only the "High impact" segment cares about this at all

### Importance of Key Drivers of Donation (for population overall)

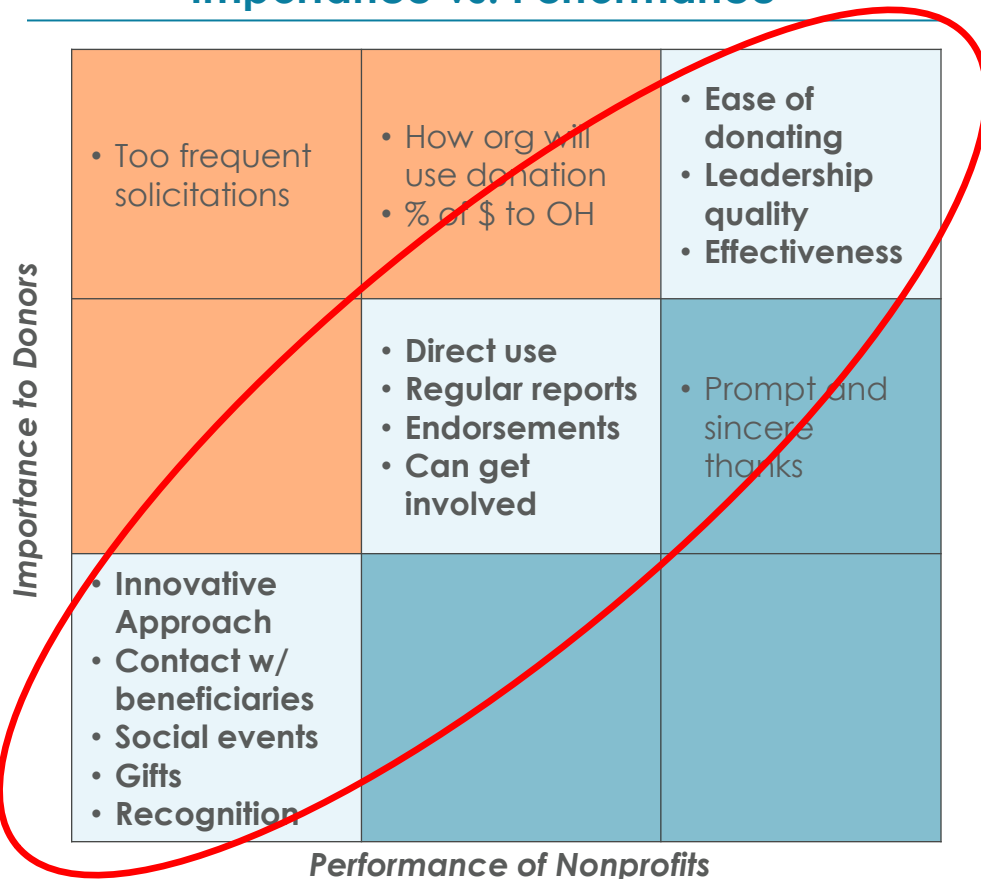


### Importance of "Organization is Better Than Others at Addressing Social Issues"



Donors feel that nonprofits perform well – there is no ‘burning platform’ for them to change

### Importance vs. Performance<sup>1</sup>



Importance to Donors	<ul style="list-style-type: none"> <li>• Too frequent solicitations</li> </ul>	<ul style="list-style-type: none"> <li>• How org will use donation</li> <li>• % of \$ to OH</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Ease of donating</b></li> <li>• <b>Leadership quality</b></li> <li>• <b>Effectiveness</b></li> </ul>
		<ul style="list-style-type: none"> <li>• <b>Direct use</b></li> <li>• <b>Regular reports</b></li> <li>• <b>Endorsements</b></li> <li>• <b>Can get involved</b></li> </ul>	<ul style="list-style-type: none"> <li>• Prompt and sincere thanks</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Innovative Approach</b></li> <li>• <b>Contact w/ beneficiaries</b></li> <li>• <b>Social events</b></li> <li>• <b>Gifts</b></li> <li>• <b>Recognition</b></li> </ul>		
	<b>Performance of Nonprofits</b>		

- For the most part, we see a high correlation between what donors say is important and how well they feel nonprofits perform
- This correlation is more stark than one would see in most other industries
- This creates a big challenge to getting people to do more research -- they see no need to do so

1. Donors were asked to rate the importance of various elements of giving, and the performance of the nonprofits to which they donated, on 1-6 scale



# Recommendations on how to increase funding to high performing nonprofits

- A. There are three primary opportunities to improve the quality of giving:**
  - 1. Closing the “care vs. act” gap
  - 2. Closing the “quality information” gap
  - 3. Closing the “good vs. best” gap
  
- A. The “Care vs. Act” and “Quality Information” gaps are the top priorities and can be addressed concurrently by**
  - 1. Providing *simple information* donors will use
  - 2. *Pushing* information to the donors
  - 3. Building *broad awareness* around some select key messages
  
- B. The opportunity to close the “Good vs. Best” gap lies with the High Impact segment**
  
- C. Foundations can also help direct more capital to high performing nonprofits by helping them to develop superior fundraising capabilities**



## A. There are three opportunities to improve the quality of giving

---

- While this is an uphill battle, we do see hope
  - 85% people **say they do care** about nonprofit performance
  - 60% of people **say they will change their giving** if nonprofits do a better job on areas that are important to them
  - We know that people do research for other decisions in life when they have ready access to quality information
  
- Overall, we see three key opportunities to improve the quality of giving
  1. Getting people that care about performance to do some research
  2. When people research, getting them to care about the 'right things'
  3. Getting people to care about making the 'best' gift, just a 'good' gift



# A. The three opportunities to improve the quality of giving



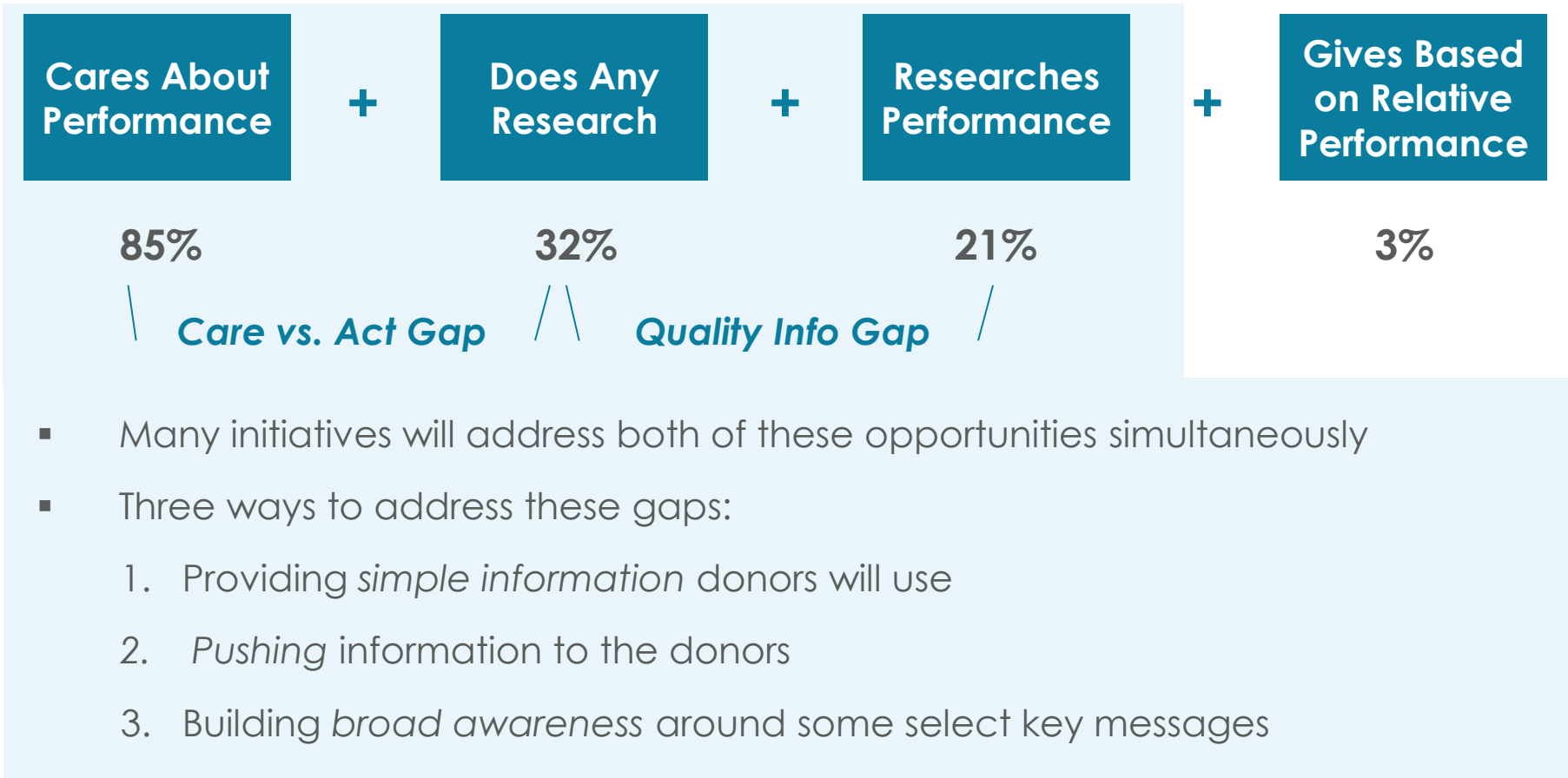




## B. We believe that the “Care vs. Act” and “Quality Information” gaps are the first priorities to address

- These gaps address ~2/3 of all donors, representing \$110B of annual donations
- Making a small change on these donations will have more impact than even a doubling of the donors that try to give to the highest performing nonprofits (which currently represent just \$5B of annual charitable gifts)
- Changing individuals' behavior is very difficult, especially given the barriers in the charitable giving space. Given that donors state time and again that nonprofit performance is important to them, we feel that getting them to *look at* research isn't a significant change to their core behaviors
  - The core behavior that can be maintained is using information to validate gifts, not choose amongst different nonprofits, which will be harder to influence
  - Addressing the “Quality Information” gap requires no behavioral changes
- Addressing these opportunities will disseminate performance information broadly, which will, in turn, motivate nonprofits to perform better and be the tide that lifts all ships
- Getting simple information on nonprofit performance out to donors will help break down the belief that donors think that all nonprofits are strong performers
- When getting donors to look at information, it is possible to simplify the information they receive and in doing so, improve the quality of information

## B. The “Care vs. Act” and “Quality Information” gaps can be addressed concurrently





## B1. Provide Simple Information – What is Needed





### Why Do This

- When we look at the 35% of people that do any research, we see that:
  - Donors **do not spend a lot of time** doing research (75% spend < 2 hours)
  - Donors are looking for **simple information** (62% want facts and figures vs. more elaborate info)
  - Donors are looking simply to **validate** nonprofits (ensure they aren't making a bad donation), which has a lower bar for information and negates the need for comparative metrics
  - Donors look to the **organization** – and to people close to it – to provide information

### What Is Needed

- Donors who care about performance but DON'T research today will be interested in information that is:
  - Simple and digestible
  - Validates performance
- Further, to create change across many donors, information must be:
  - Easy for sector to market and message
  - Consistent with how donors absorb information today
- However, what is **not** required/desired (from a donor's perspective):
  - Consistent information across nonprofits
  - Information that compares nonprofits to each other
  - Detailing methodologies/scoring systems

# B1. Provide Simple Information – Some Potential Ideas

	Example	Rationale									
<div style="background-color: #00728f; color: white; padding: 10px; text-align: center; font-weight: bold; font-size: 1.2em;">Seal of Approval</div>	 <p><i>We are a “Best Buy Charity”</i></p>	<ul style="list-style-type: none"> <li>• Simple</li> <li>• Validating</li> <li>• Bar can be set as high as one wants</li> </ul>									
<div style="background-color: #c85130; color: white; padding: 10px; text-align: center; font-weight: bold; font-size: 1.2em;">3 Key Questions</div>	 <p><i>Before you donate, ask your nonprofit these three questions ...</i></p>	<ul style="list-style-type: none"> <li>• Simple</li> <li>• Marketable</li> <li>• Help move from OH</li> </ul>									
<div style="background-color: #add8e6; padding: 10px; text-align: center; font-weight: bold; font-size: 1.2em;">Peer Reviews</div>	 	<ul style="list-style-type: none"> <li>• Get info from people</li> <li>• Can get heavy traffic</li> </ul>									
<div style="background-color: #556b2f; color: white; padding: 10px; text-align: center; font-weight: bold; font-size: 1.2em;">Year-on-Year Metrics</div>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;"><u>Last Year</u></th> <th style="text-align: center;"><u>This Year</u></th> </tr> </thead> <tbody> <tr> <td>Entrepreneurs Assisted</td> <td style="text-align: center;">300</td> <td style="text-align: center;">450</td> </tr> <tr> <td>Income from Enterprises</td> <td style="text-align: center;">\$1.3M</td> <td style="text-align: center;">\$3.2M</td> </tr> </tbody> </table>		<u>Last Year</u>	<u>This Year</u>	Entrepreneurs Assisted	300	450	Income from Enterprises	\$1.3M	\$3.2M	<ul style="list-style-type: none"> <li>• Achievable by most</li> <li>• Shows progress</li> <li>• Comparable info w/o comparing nonprofits</li> </ul>
	<u>Last Year</u>	<u>This Year</u>									
Entrepreneurs Assisted	300	450									
Income from Enterprises	\$1.3M	\$3.2M									



## B1. Provide Simple Information – Further Thoughts on the “Seal of Approval”

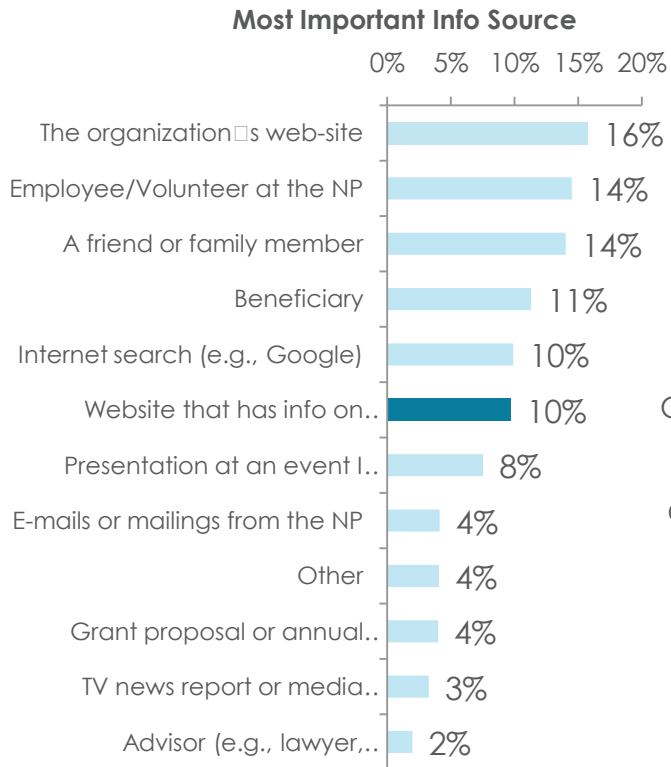
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- This is a “do it for me” evaluation of a nonprofit by a third party
- Could be a seal or a simple star rating
- There are three basic options for creating such a validation
  - Current intermediary could establish (e.g., GuideStar, BBB, Charity Navigator)
  - Could license a seal from an existing certification organization (e.g., TRUSTe)
  - Intermediary could pull information from multiple evaluation organizations
- The bar could be set as high as desired (i.e., 75% of nonprofits pass, or 15% pass)
- We see the validation itself evolving over time as the quality of information improves, and could ultimately be able to take into account the following:
  1. Start with transparency and accountability
  2. Quickly add in financial efficiency (not just OH)
  3. Then bring in commitment to social impact, as proxy for impact
  4. Finally, incorporate an assessment of social impact
- Including these items will help address the “Quality of Information” gap

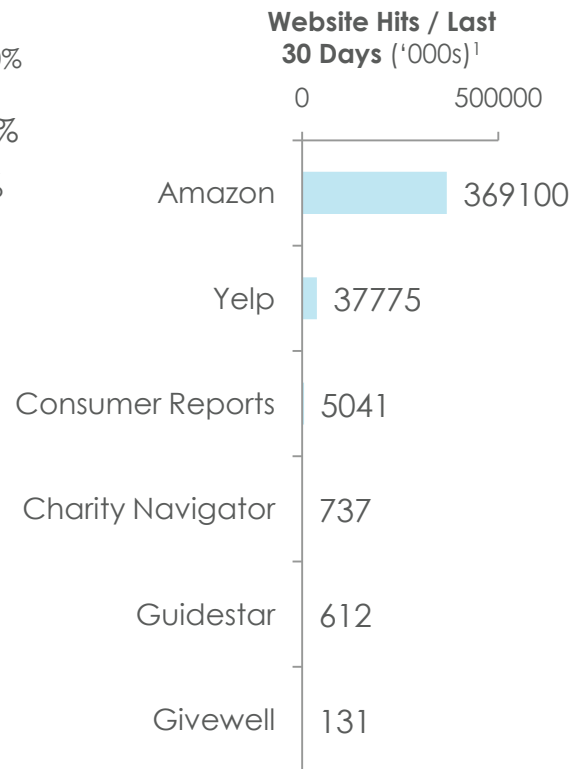


## B2. Push Information to Donors – What is Needed

### Donors do not look to portals for information



### However, donors do check other sites for information before they buy goods



- Donors that research aren't going to third-party sites where info on nonprofits is collected
- However, donors **do** go to the nonprofits itself (in particular, the website)
- ...and consumers **do** research and compare items before they make **other** purchases
- What is needed is to get the information to where donors will see it

1. Source: Alexa.com



## B2. Push Information to Donors – Some Potential Ideas

	Example	Rationale
<p><b>Nonprofits' Materials</b> (directly on homepage, etc.)</p>	<p>www.nonprofit.org/home</p> <p><i>"We have just been awarded the XYZ Seal of Approval"</i></p>	<ul style="list-style-type: none"> <li>• Donors' #1 information source</li> <li>• Donors view charity as a "different type" of transaction - may not use trad. info sources</li> </ul>
<p><b>Mainstream News</b></p>	<p>US News and World Report</p> <p><i>"Following our ratings of universities, we now rate the 100 largest nonprofits"</i></p>	<ul style="list-style-type: none"> <li>• Heavily trafficked</li> <li>• Known for ratings</li> <li>• Can use partners</li> </ul>
<p><b>Rating Agency</b></p>	<p>Consumer Reports</p> <p><i>"We have teamed with GuideStar to rate the largest 100 nonprofits"</i></p>	<ul style="list-style-type: none"> <li>• Heavily trafficked</li> <li>• Known for ratings</li> <li>• Nonprofit itself</li> <li>• Can use partners</li> <li>• Respected</li> </ul>



## B3. Communicate Select Messages Broadly

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### Why Do This

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- Regardless of its usefulness, nonprofit efficiency/overhead has become a oft-requested metric
  - The #1 piece of information donors look for is the % of costs going to overhead
- ...But overhead alone can't tell us how well an organization performs
- A broad campaign is needed to sensitize donors to the importance of performance...
- ...And to prompt nonprofits to actively measure and manage to effectiveness

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### Some Ideas...

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- Media campaign that seeks to land a coherent message on performance, and give donors a concrete way to act on that message
  - Focused on the media people use: mainstream media (e.g., CNN report, USA Today, etc) + social media
  - E.g., "Look for the three measures that mean quality"
- Collaboration among organizations trying to evaluate nonprofits to design a streamlined approach to measuring nonprofit effectiveness
  - "80%" solution people understand >> the "100% correct" solution that is complex
  - Done in a way that enhances (vs. takes time away from) nonprofit management



## C. The opportunity to close the “Good vs. Best” gap lies with the High Impact segment



- This gap is more difficult to close, as it requires:
  - Donors to change their behavior → spend more time & compare vs. validate nonprofits
  - Foundation/intermediaries to call out underperformers (“We recommend: give to Y, **not** X”)
  - Consistent and measurable information across nonprofits
- The only donors who can be influenced here are the “High Impact” segment
  - Only group that cares about maximizing impact of their donations
- Given the challenge of closing this gap, we see this as a secondary priority



## D. Foundations can also help high performing nonprofits to develop superior fundraising capabilities

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- Getting donors to give to the highest performing nonprofits is hard
  - Donors do not actively give to the highest performing nonprofits today
  - Donors do not indicate that they are interested in doing this in the future
- While there are things that can be done to change that, there are other ways to direct more capital to the highest performing nonprofits in the near-term
- Specifically, foundations can help the nonprofits they believe to be 'high performing' to implement new tactics to improve their fundraising capabilities. By being better at fundraising, these nonprofits will be able to obtain a higher share of the individual donors' charitable giving, e.g.,
  - Target 1-3 behavioral segments with outbound messaging and donor experience
  - Identify, tag, and track donors by segment
  - Prioritize investments based on what will drive donor behavior
  - Donors do not indicate that they are interested in doing this in the future
- These tactics are not easy to implement, so will require coaching and capacity building

# Agenda



1. Executive Summary p 8 – 10
2. Increasing charitable donations from individuals p 12 – 34
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## Context: How we “defined” impact investing (1 of 2)

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- We began our survey by presenting respondents with four different concepts of impact investing (see next page)
  - Since many people are new to impact investing – and those who are familiar with it define it differently – we found that the concepts engaged people better than a definition when we tested them in focus groups
  - In order to avoid bias, we rotated each of the four concepts so that each concept was the first one presented to a quarter of respondents
  
- The concepts all actively seek to create a social or environmental benefit, which distinguish them from “broad” socially responsible investing, including “negative screened” funds
  
- Each concept contained the same core elements, which we then used to define impact investing later on in the survey (see next page)



## Context: How we “defined” impact investing (2 of 2)

### Started with Four Concepts<sup>1</sup>

#### **Investment with a Social Bonus:**

Focused principally on financial returns, but through opportunities that deal with social / environmental issues

#### **Helping People Help Themselves:**

Microfinance example, targeting low level of financial return

#### **Business Solution to a Social Problem:**

Focused principally on achieving a social benefit, but also seeks profit

#### **Sustainable Charity:**

Loan to a charity to help it start a business, targeting low level of return

### Then Provided Common Definition

*All of these concepts...*

- Allow you to put money towards an opportunity that creates a social or environmental benefit
- Attempt to return at least the principal invested
- Offer a return on your money (which varies by opportunity)
- Are not tax deductible

1. Paraphrased from full text used in survey



# Executive Summary

## Key Findings

- A. Most individuals are open to impact investing, but need to know more
- B. There is \$120B of market opportunity, half of which is for smaller (<\$25k) investments; even the wealthy want small investments
- C. The opportunity is greater when positioned as investments, not alternatives to charity
- D. Once people get involved, their willingness to invest increases (ramp in effect)
- E. People discover & transact through their advisor
- F. The key barriers investors see relate to the immaturity of the market, not the social or financial qualities of the investment opportunities
- G. Overall, downside risk is more important than upside financial returns
- H. However, those general preferences don't apply to each investor. We found six discrete segments that have different priorities and motivations

## Recommendations – To Unlock the Impact Investing Market

### For organizations trying to unlock this market:

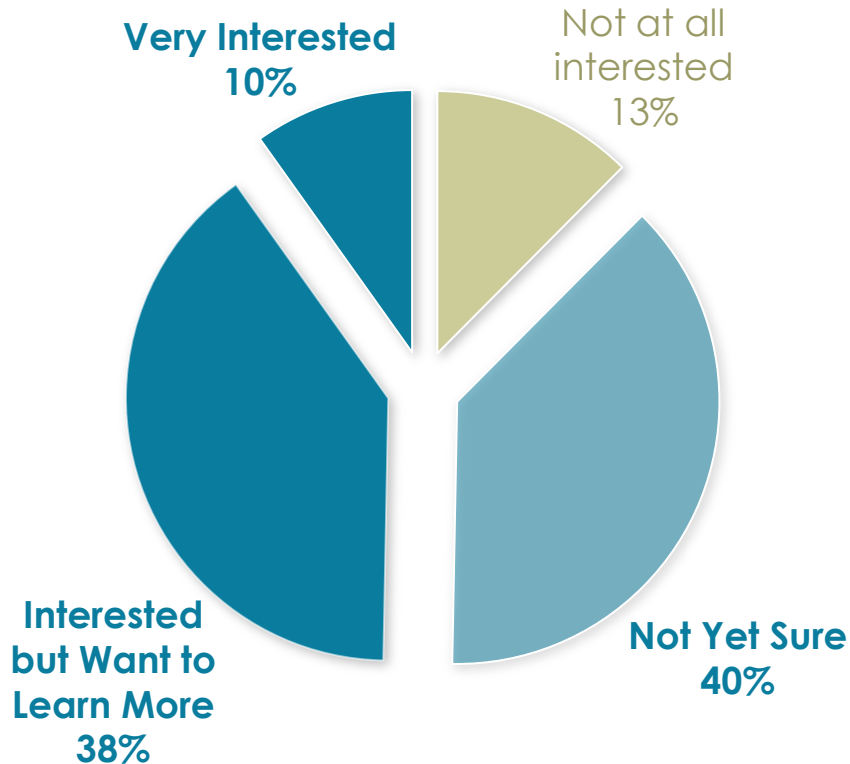
- A. Clarify what impact investing means
- B. Build awareness of impact investing and the opportunities available for investors
- C. Develop and disseminate information on impact investing to financial advisors

### For all organizations involved in impact investing:

- D. Structure products with small initial investments (<\$25,000)
- E. Tailor products and messages by segment, to appeal to different motivations
- F. Make opportunities accessible to investors
- G. Position these as investments, not as alternatives to charity
- H. Address barriers related to the markets' immaturity, which are consistent across segments

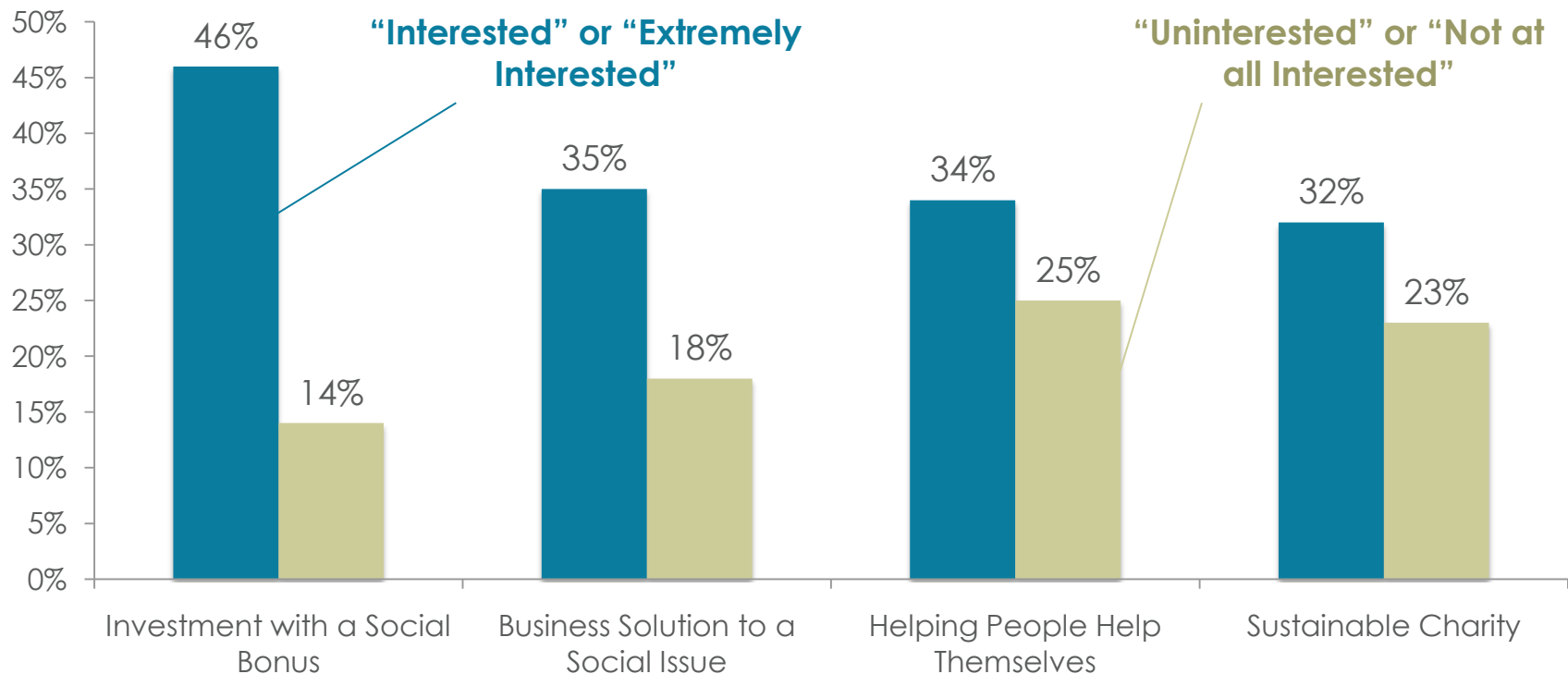
## A majority of individuals are open to impact investing

**~50% are interested, and another 40% have not closed out the idea...**



- ~50% are interested
- 87% have not closed out the idea
- Even though only 12% have invested before

# Individuals are most interested in the “Investments with a Social Bonus” concept



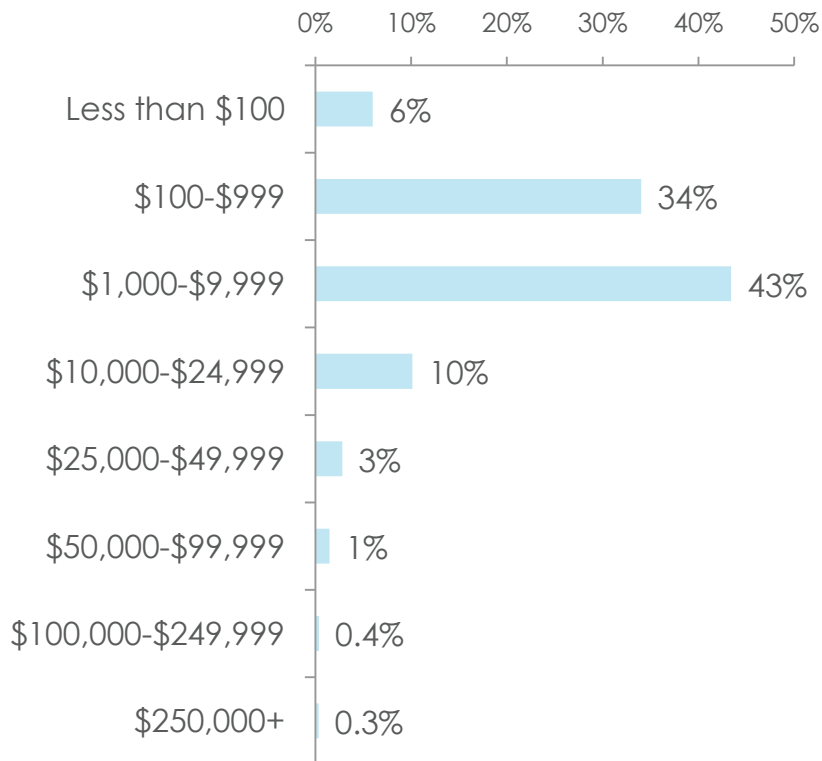
**About 2/3 of respondents said that they were interested in at least one of the four concepts**



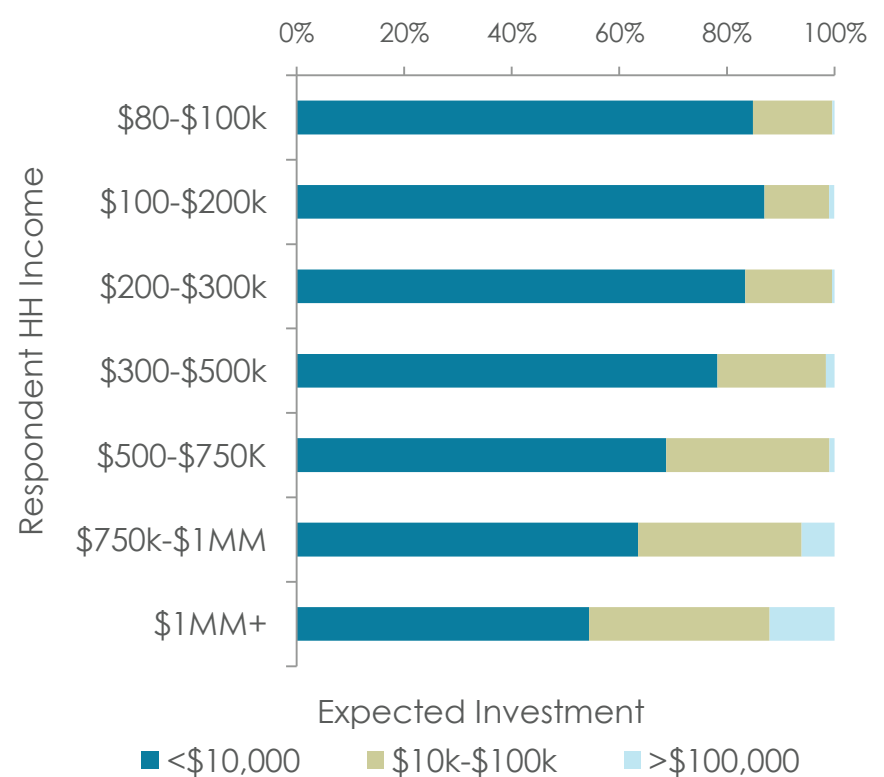


Most investors are interested in small investments, even the wealthy

**85% of respondents would invest less than \$10,000; 95% less than \$25,000**



**Wealthier respondents more willing to invest larger amounts, but majority still prefer \$10,000 or less**



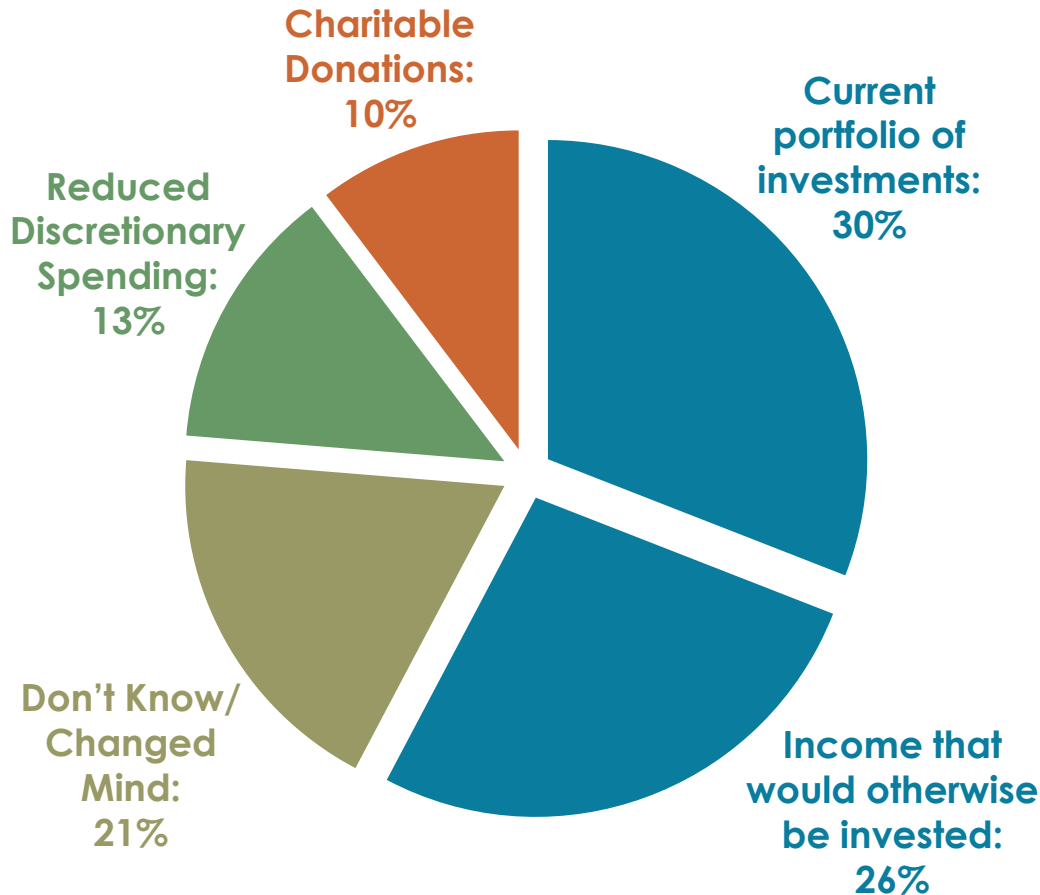


This leads to a \$120 billion opportunity,  
half of which is for investments up to \$25,000

Amount Willing to Invest	% of Population	Market Opportunity <sup>1</sup>
<\$1,000	41%	\$2B
\$1,000 - \$10,000	43%	\$29B
\$10,000 - \$25,000	10%	\$27B
\$25,000 - \$100,000	4%	\$35B
>\$100,000	1%	\$26B
<b>TOTAL</b>	<b>100%</b>	<b>\$120B</b>

1. For US population with over \$80k in HH income.  
The market opportunity represents how much individuals are willing to invest today. This is not an "annual" number

This money would come principally from investments (with limited cannibalization of charitable dollars)



- 56% of money would come from investments
- 23% of money would be new to an investment advisor or broker (charitable donations + discretionary spend)
- The risk of cannibalizing charitable donations seems minimal (10%)
- We excluded the 21% “don’t know” from the \$120B market opportunity<sup>1</sup>

Note: Numbers are based on the respondents who said they would invest in impact investments in the future.

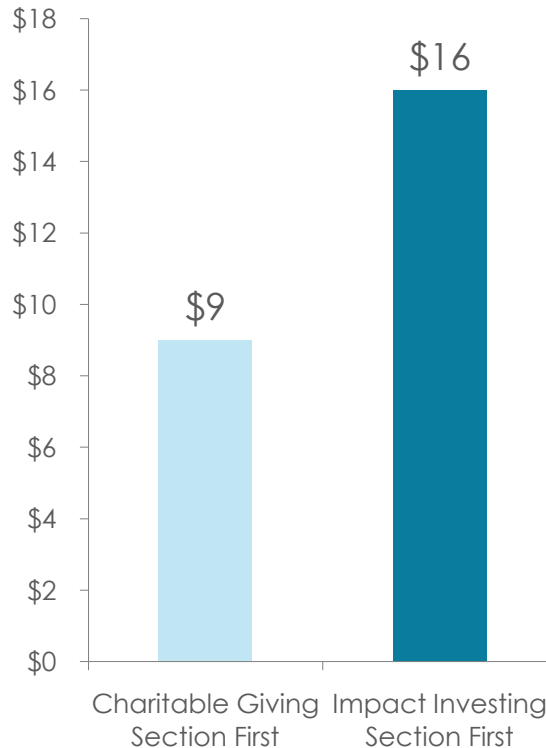
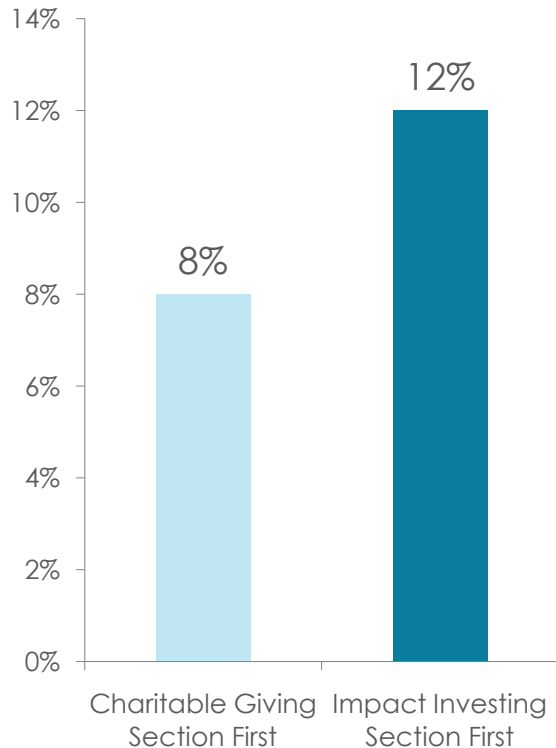
1. We ‘zeroed out’ those who didn’t know where the money would come from (18%), or changed their mind and said they wouldn’t invest (3%)



The opportunity is even greater when people are not first anchored in charitable giving

**Respondents who were “very interested” in impact investing**

**Amount willing to invest in impact investments (\$'000/HH)**



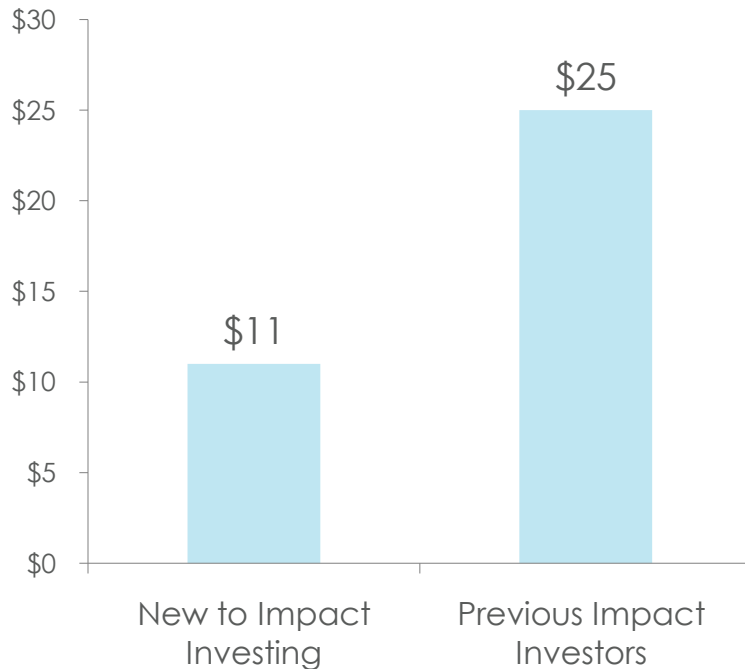
- We showed half of the respondents the charity section first, and half the impact investing section of the survey first
- Those who saw the investing section first expressed stronger interest in impact investing...
- ...and said they were willing to invest almost twice as much



Once people have a positive experience with impact investing, their willingness to invest rises

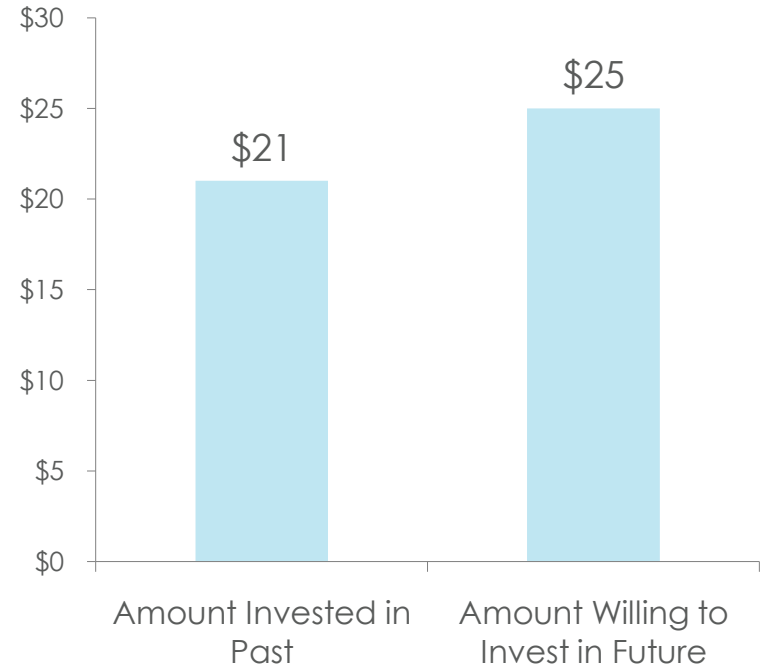
**Those who have already made impact investments are willing to invest 2.3x more**

Market Opportunity / HH (\$'000)



**Further, current impact investors are willing to invest 15-20% more in the future than they have to date**

Market Opportunity / HH among previous impact investors (\$'000)



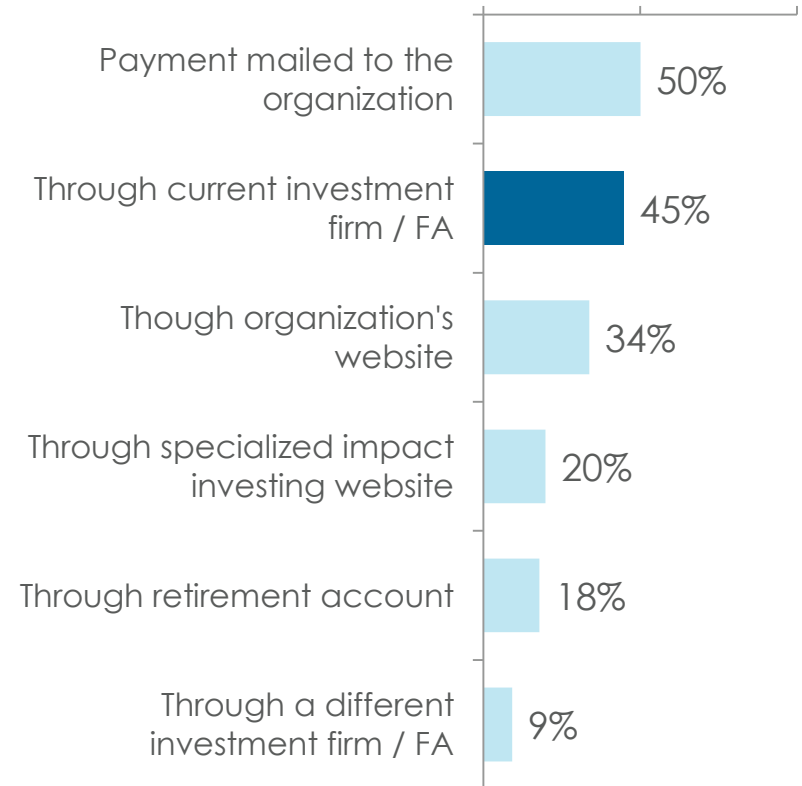


# Investors prefer to discover and transact through their financial advisor/broker

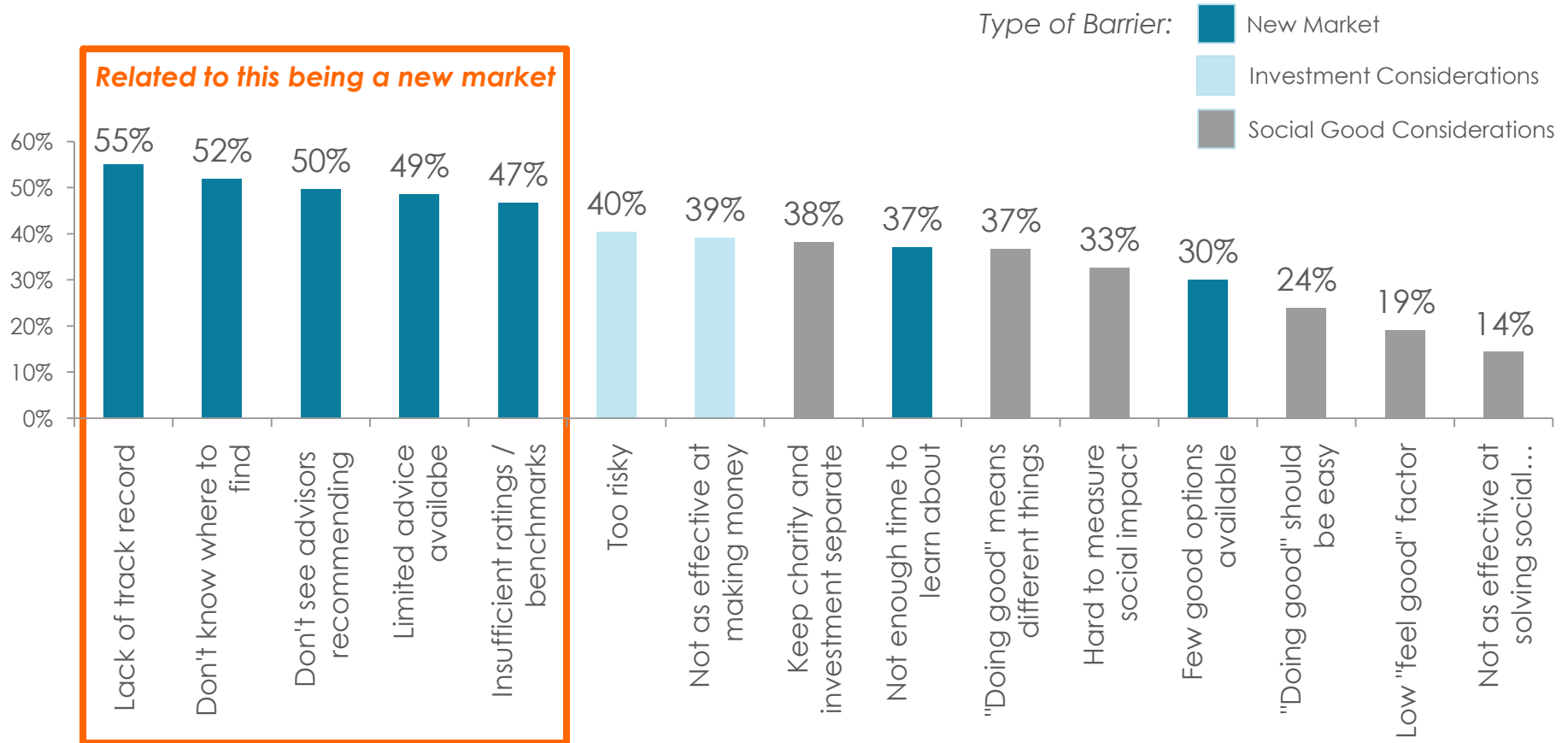
## Where investors turn to learn about opportunities



## Where investors are willing to transact



# The top barriers from the investors' perspective all relate to the immaturity of the market



%s refer to the % of respondents that rated each barrier as a 5 or 6 on a 1-6 scale. Question was "Please Indicate why you believe some people may be hesitant to put money behind concepts like these".



Overall, investors care most about downside risk and addressing a cause they care about...

### Drivers of Investor Behavior (Relative Importance)



- Question posed to understand drivers of behavior, not simply stated preferences<sup>1</sup>
  - Required respondents to make tradeoffs (max/diff analysis)<sup>2</sup>
  - When simply asked what is important, investors say everything matters – this approach better mirrors real life
- Responses then scored to show relative importance of each attribute to the others
- Shows that downside protection is much more important than upside return. This is partially due to small investment size. For investments >\$50k, return matters much more

1. Note that the same approach was used in charitable giving analysis. 2. See appendix for details and example ("Max Diff")



...However, we found six discrete segments of impact investors that have different primary motivations

### Safety First

*"I want to know I'll get my money back and maybe some upside. The social benefits are secondary"*

### Socially Focused

*"This is a great way to support the causes that are important to me"*

### Quality Organization

*"Show me a strong business model and a good track record, and I'll invest"*

### Hassle Free

*"If I don't have to look too hard and it's a pretty liquid investment, I'm willing to try"*

### Personally Recommended

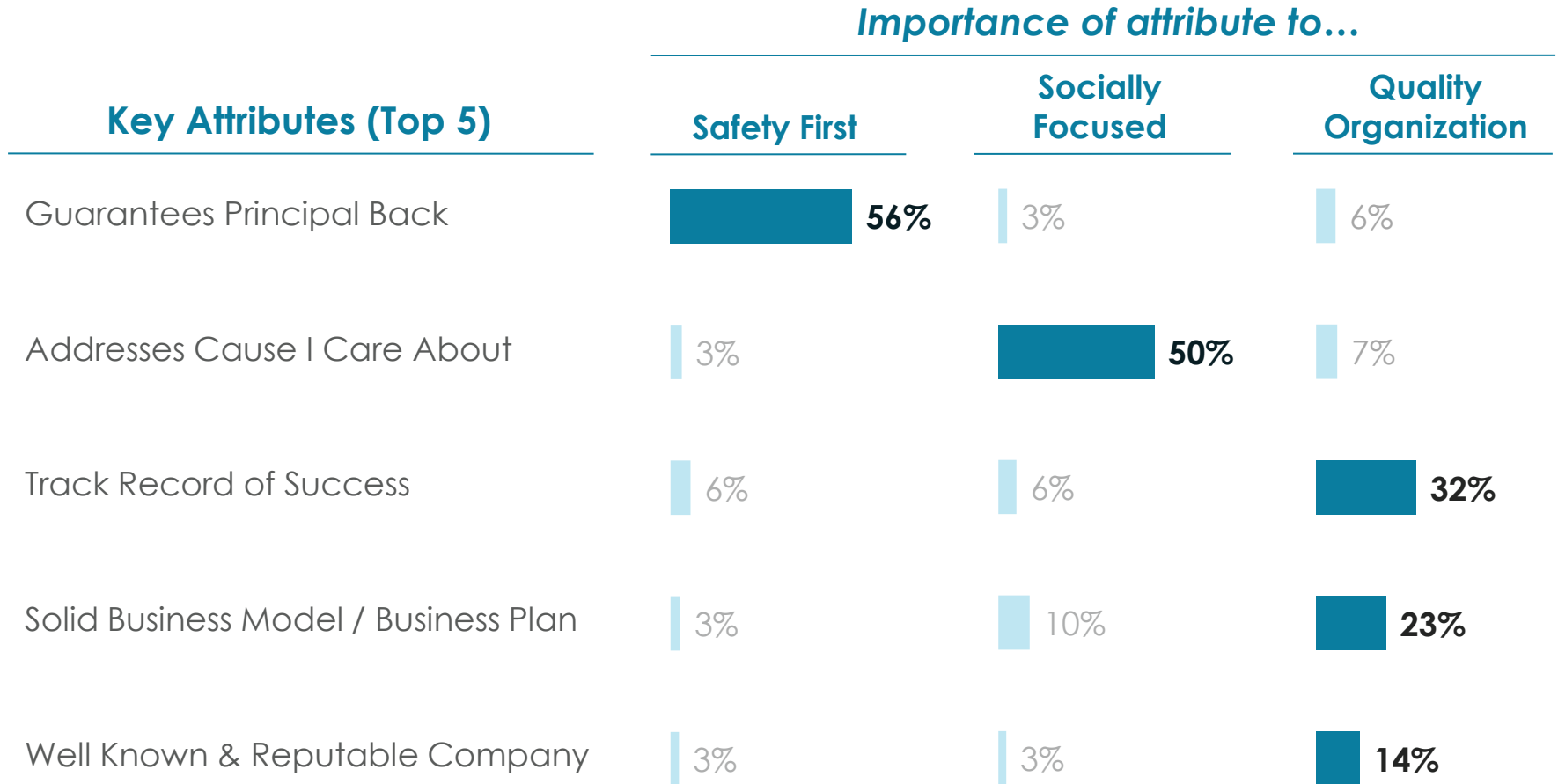
*"A business school classmate is a social entrepreneur. I'm happy to invest in his venture"*

### Skeptic

*"I keep my charitable giving and financial investments separate. I'm not at all interested"*



Looking at the top five attributes across the top three segments shows the differences in their primary drivers



See appendix for full detail (all attributes and all segments)

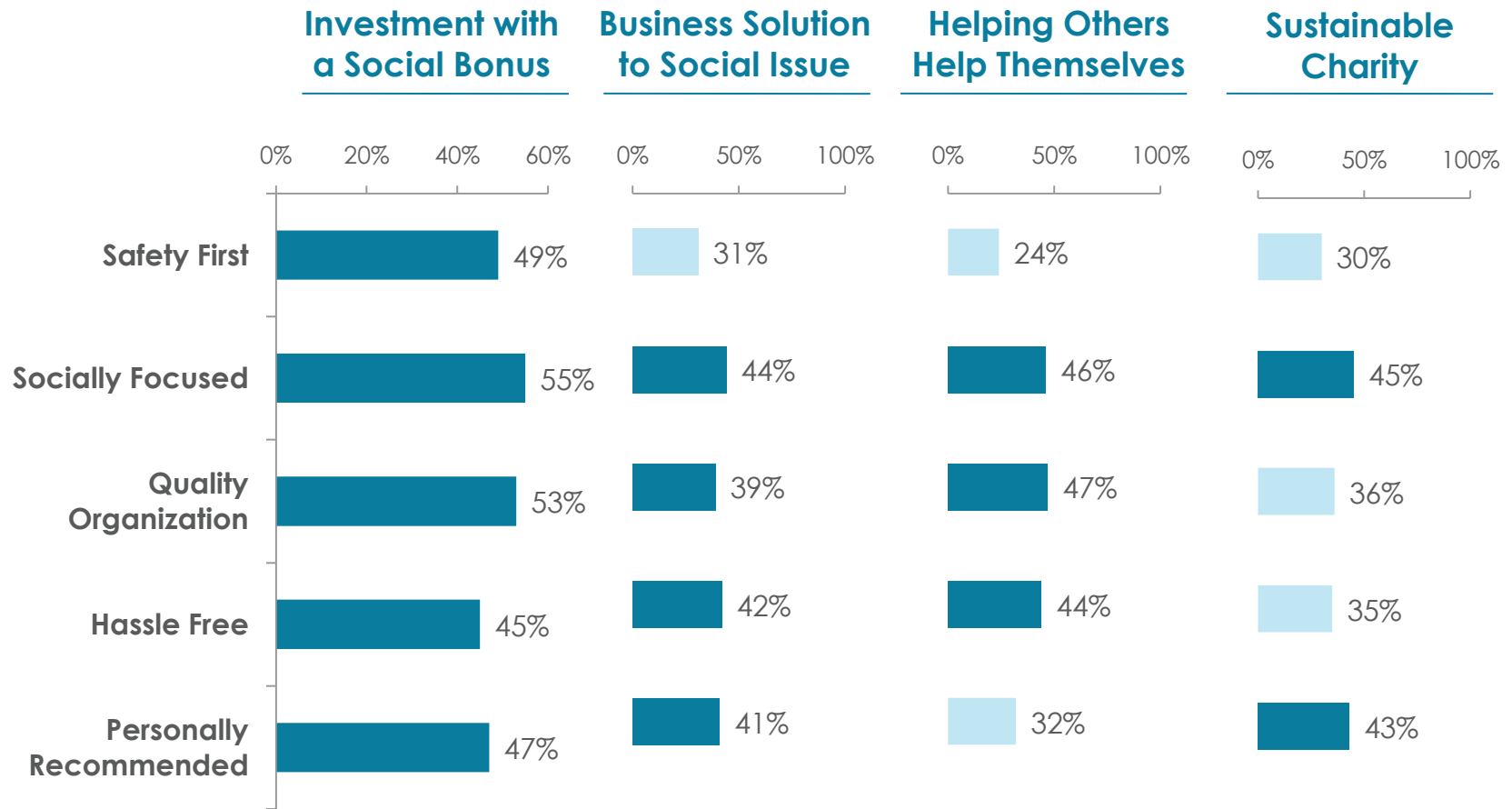


The top three segments control >80% of the current and future market

	% POPULATION	% CURRENT INVESTMENTS	% MARKET OPPORTUNITY	NOTES
<b>Safety First</b>	29%	16%	34%	Currently wary, but \$ to Invest
<b>Socially Focused</b>	27%	44%	28%	Early adopters
<b>Quality Organization</b>	19%	22%	21%	Second largest in \$\$ today
<b>Hassle Free</b>	6%	8%	13%	
<b>Personally Rec.</b>	5%	11%	4%	Invest heavily in trusted friends
<b>Skeptic</b>	13%	0%	0%	Philosophically opposed



# The segments prefer different concepts: “Safety First” only likes one concept while “Socially Focused” likes all



%'s refer to the % of respondents that rated a concept a 5 or 6 on a 1-6 scale.  
 Dark blue shading indicates higher levels of interest; light blue shows lower levels of interest



And despite their differences, each segment (except Skeptics) prioritizes the same five barriers

**Rank order of the importance of each barrier to each segment**

	<b>Safety First</b>	<b>Socially Focused</b>	<b>Quality Organization</b>	<b>Hassle Free</b>	<b>Personally Recommended</b>	<b>Skeptic</b>
<b>Lack of track record</b>	1	2	1	2	2	2
<b>Don't know where to find</b>	4	1	2	1	1	14
<b>Advisors/brokers not recommending</b>	5	4	5	3	4	9
<b>Limited advice available</b>	2	3	4	4	3	8
<b>Insufficient ratings / benchmarks</b>	3	5	3	5	5	5
Too risky	6	11	7	10	9	2
Not as effective at making money	7	9	6	7	11	4
Keep charity and investment separate	9	7	9	9	8	1
Not enough time to learn about	8	8	8	8	6	11
"Doing good" means different things	10	6	12	6	6	6
Hard to measure social impact	11	10	11	11	10	7
Few good options available	12	12	10	12	12	15
"Doing good" should be easy	13	13	13	13	13	10
Low "feel good" factor	14	14	14	14	14	13
Not as effective at solving social problems	15	15	15	15	14	12

See page 70 for overall ranking of barriers



## Context for Impact Investing Recommendations

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- Our primary objective was to understand the demand for impact investing among affluent US individuals
- We found a strong latent demand for impact investments with small initial investment thresholds, targeted at individuals
- Our recommendations are meant to provide ideas for how to unlock that “mainstream” opportunity. However, additional work is required to more fully flush out these opportunities, as our fact-base is almost exclusively from the demand (not the supply) perspective
- We have organized the recommendations into two groups:
  - Recommendations for organizations that are trying to unlock the impact investing market. These will appeal primarily to field-building organizations like the Rockefeller Foundation, GIIN, and others
  - Recommendations for all organizations involved in impact investing. These will appeal to both field-building organizations as well as those offering impact investments



# Recommendations to realize the potential of the impact investing market

For organizations trying to unlock this market:

- A. Clarify what impact investing means**
- B. Build awareness of impact investing and the opportunities available for investors**
- C. Develop and disseminate information on impact investing to financial advisors**

For all organizations involved in impact investing:

- D. Structure products with small initial investments (<\$25,000)**
- E. Tailor products and messages by segment, to appeal to different motivations**
- F. Make opportunities accessible to investors**
- G. Position these as investments, not as alternatives to charity**
- H. Address barriers related to the markets' immaturity, which are consistent across segments**



## A. Clarify what impact investing means

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### Why Do This

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- There is no common definition of impact investing among individuals, financial advisors, or even those currently in the impact investing universe
- Key differences surround both how the investments aim to create a social impact, and whether or not these aim to offer a market rate of return
- Different actors in the space care about the rate of return point
  - Some advisors can only recommend market rate of return vehicles
  - Some investors are only looking to invest where there are market failures
- The blending of both market and sub-market options together creates confusion and can turn away investors

### Some Ideas...

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- Clearly distinguish the impact investing market into two segments:
  - Market rate investments
  - Below market rate investments
- Recognize that some actors will only be interested in (or able to offer) market rate of return options
- Also realize that there is a lot of demand for below market rate of return investments (that offer downside protection)
  - Individuals don't prioritize "rate of return" when considering small investments
- This distinction can help clarify the market while allowing both types of opportunities to flourish





## B. Build awareness of impact investing and the opportunities available for investors

### Why Do This

- There is broad interest and openness for impact investing from investors
- The majority of investors are interested in investing a small piece of their portfolio in these types of investments
- Several products exist today that meet investor needs, for example the Calvert Community Investment Note and CDFIs
- However, investors are unaware of the impact investment market in general, and of specific opportunities that meet many of their stated needs
  - #2 barrier is “I don’t know where to find”
- Easier to promote what already exists than to invent products

### Some Ideas...

- Continued promotion of impact investing in arenas that mainstream investor will see
  - What it is and where to do it
  - Benefits and track record (address the “key barriers”)
- Promotion of specific opportunities that meet investor needs (e.g., Calvert Note)
  - Very low awareness today
- Target specific groups of funds – specifically Donor Advised Funds - that are well positioned for impact investing
  - Build momentum and track record
- Appeal directly to investor’s interest with campaigns such as “2% for Impact”
  - Just as 85% of donors contribute ~2% of their income to charity, there could be a focus on getting these same individuals to invest 2% of their assets in impact investments



## C. Develop and disseminate information on impact investing to financial advisors

### Why Do This

- Financial advisors are the key to this market
  - Majority of respondents used an advisor
  - #1 source of information for investors
  - 45% want to transact through their advisor
- However, many advisors don't know about these opportunities
- And when they do know, they see barriers to recommending them
  - "There isn't a database with these options"
  - "I can't find out about them where I find out about other opportunities"
  - "I am not confident in the track record"
  - "Where is my upside?"

### Some Ideas...

- Research the key barriers that financial advisors see today – and what barriers they would see if there were more products available
- Develop communications and information that address these advisors key barriers
- Target specific sets of advisors to create momentum. Potentially:
  - Fee based advisors (vs. commission)
  - Largest advisors (which drive market)
- Integrate impact investments into the databases and tools that they use today to eliminate information disadvantages



## D. Structure products with small initial investments (<\$25,000)

### Why Do This

- 95% of people are interested in investing less than \$25,000
- Getting these people involved can help move impact investing “mainstream”
- There is appetite for investors to ‘get their feet wet’ with small investment amounts and then ramp up their level of investment after they become more familiar

### Some Ideas...

- Promote and embrace small investments as the goal, i.e., the “2% for Impact” campaign
  - Try to create a market driven by a majority of people investing a small portion of their assets – as opposed to just a small number of wealthy investors putting large amounts of capital to work
- Promote current investment offerings that meet this objective (e.g., Calvert Note, CDFI deposits, investments through MicroPlace, etc.)
- Analyze the cost/benefit and feasibility of structuring new vehicles to do this, including deposit products, fund of funds, mutual funds. For example:
  - Would require new intermediaries to match “50,000 investors investing \$5,000 each with 25 social VC firms looking for \$10M investments”

# E1. Tailor products and messages by segment – Select core segment(s) on which to focus

## Why Do This

- Each segment is looking for different product benefits
- Organizations can't appeal to all segments and need to select one or two segments on which to focus. These should be selected based on:
  - Which align with the organization's strengths
  - What products the organization offers (e.g., "Safety First" doesn't like "Sustainable Charity")
- Most could target *either* "socially focused" or "safety first" *and* "quality organization" as key messages could reinforce, not conflict. This would lead to a focus on two of the top three segments overall
- Once select targets, align messaging and investor experience accordingly

## Example of How This Could Work:





## E2. Tailor products and messages by segment – Create/Promote products for “Safety First” Segment

### Why Do This

- Donors said that “Guarantee I Get My Principal Back” and “Low Risk” were 6x more important than if an opportunity offered a “High Rate of Return”
  - Guarantee Principal + Low Risk: 26%
  - High Projected Rate of Return: 4%
- One of the three largest segments – “Safety First” – cares primarily about mitigating risk
- The Safety First segment has 1/3 of the market opportunity (largest of any segment)
- Many of these products already exist

### Some Ideas...

- FDIC-insured deposit products
  - Exist today (CDFIs, Social Banks)
  - Could also be source of advantage for banks needing to meet CRA requirements
- Loan guarantees that protect investors and open up capital
  - Can leverage PRI capital from Foundations
- Combined ventures that allow different investors to take different levels of risk
  - Safety First senior debt; Socially Focused junior
  - Could be in existing products like Calvert note
- Market and communicate guarantees, e.g.
  - “Socially responsible deposits ~ FDIC insured”
  - “This facility benefits from a comprehensive OPIC guarantee”
  - “99% repayment rate from our borrowers and a 100% repayment rate to our investors”<sup>1</sup>

1. Root Capital homepage



## F. Make opportunities accessible to investors

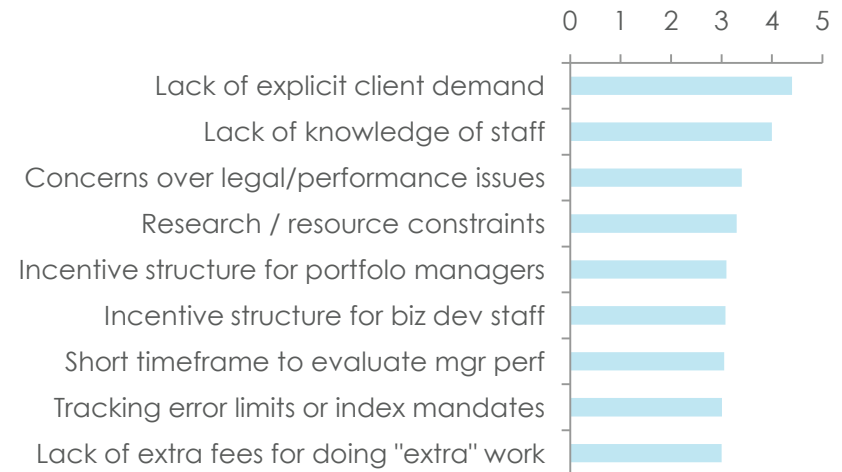
### Why Do This

- Many impact investment options for investors are in socially-focused venture capital funds that have high minimum investments
  - Well above the \$25,000 “threshold”
  - Limits ability to reach majority of market
- Investors stated that “Don’t know where to find” was the second most important barrier
- Making these available at established financial institutions will help address the “newness” concerns, and appeal directly to one of the top three segments: “Quality Organization”

### Some Ideas...

- Work with large financial institutions (e.g., Fidelity) to structure and/or offer impact investments through their platform
- Address barriers facing financial advisors, given their importance to investors and the fact that only 20% ever raise proactively<sup>1</sup>

*How important are the following factors in preventing fund managers from doing [impact investing]<sup>1</sup>*



1. “Investment Consultants and Responsible Investments”, Social Investment Forum Foundation, December 2009



## G. Position these as investments (not as alternatives to charity)

### Why Do This

- People were more interested in impact investments when they were not in a “charity” state of mind
  - 12% vs. 8% “very interested”<sup>1</sup>
  - 43% vs. 34% “interested but want to know more”<sup>1</sup>
- People were willing to invest almost twice as much when these were positioned as investments
  - \$16,000 vs. \$9,000<sup>1</sup>
- While only 10% said they would use charitable dollars for impact investments, the more these are positioned as investments, the less likely they will cannibalize charitable contributions

### Some Ideas...

- Separate requests for donations and requests for impact investments
- When soliciting for impact investments, position as investments, regardless of whether you are leading with the financial or the social elements
- Create materials that look and feel like standard investment materials
- Consider partnering with financial organizations to develop and market the products

1. We showed half the respondents the impact investing questions first, and half the charitable questions first. These %'s refer to the difference in the groups (people who say the impact investing questions first were much more interested in the concepts)



## H. Address barriers related to the markets' immaturity, which are consistent across donor segments

### Why Do This

- Each segment prioritizes the same five barriers above all others:
  - Lack of a track record
  - Don't know where to find these
  - Don't see advisors recommending
  - Limited advice available
  - Insufficient benchmarks/ratings
- As such, addressing these five obstacles is the most important opportunity for the sector, and will address concerns for all investor types
- Will help close the gap between the majority of people interested and the 12% who have invested thus far

### Some Ideas...

- Expand GIIRS / portals that track investment opportunities and link with traditional investment databases
- Look at the opportunity for large financial institutions (e.g., Fidelity, Vanguard, Wells) to structure and sell impact investments
- Breakdown barriers to brokers recommending or selling these / encourage brokers to offer more
  - Only ~20% ever raise it proactively, despite stated interested by investors
- For organizations looking for impact investors: emphasize track record and quality of your organization





# Examples of organizations offering impact investments employing these ideas

	Example	Rationale
Proactively Address "Newness" Barriers	 <p><i>Ten years, 100% repayment rate</i></p>	<ul style="list-style-type: none"> <li>Each segment has same 5 barriers</li> </ul>
Consider Smaller Investment Amounts	 <p><i>Calvert Note has \$1000 minimum (\$20 at MicroPlace)</i></p>	<ul style="list-style-type: none"> <li>95% want &lt;\$25,000</li> <li>85% was &lt;\$10,000</li> <li>Move mainstream</li> </ul>
Focus on One or Two Segments and Tailor	 <p><i>Clean energy in dev. countries</i></p>	<ul style="list-style-type: none"> <li>Different priorities</li> <li>Can't be all things to all people</li> </ul>
Create Products that Limit Downside Risk	 <p><i>FDIC insured</i></p>	<ul style="list-style-type: none"> <li>Safety First = 1/3 of total opportunity</li> <li>Vehicles exist</li> </ul>
Position as Investment, not Alternative to Charity	 <p><i>Ignia completes closing of Fund I</i></p>	<ul style="list-style-type: none"> <li>More interest</li> <li>Higher investments</li> <li>Don't risk charity</li> </ul>

# Agenda



1. Executive Summary p 8 – 10
2. Increasing charitable donations from individuals p 12 – 34
3. Increasing donations to the highest performing nonprofits p 36 – 57
4. Realizing the potential of the impact investing market p 59 – 88
- 5. Final thoughts and next steps p 90 – 92**
6. Appendix p 94 – 106



There is no correlation between how people give and how they invest; ‘Money for Good’ is really two markets

**Money for Good is Two Markets**

- We began this project wondering if individuals behave similarly across both giving and impact investing
  - E.g., would “High Impact” donors fall predominantly into one impact investing segment
  
- We discovered that there is little correlation between how people give and how they invest. These are two separate markets, people think of them as discrete decisions, and they should be approached as such

**% of Each Charitable Segment Within Each Impact Investing Segment**

	Safety First	Socially Focused	Quality Org	Hassle Free	Personal Rec.
<b>Repayer</b>	25%	22%	18%	22%	25%
<b>Casual Giver</b>	19%	14%	24%	18%	16%
<b>High Impact</b>	13%	24%	19%	16%	9%
<b>Faith Based</b>	14%	14%	13%	11%	20%
<b>See the Difference</b>	15%	13%	12%	14%	11%
<b>Personal Connection</b>	14%	12%	16%	18%	19%
	100%	100%	100%	100%	100%



## Concluding thoughts

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- **There is significant market opportunity for ‘Money for Good’**
  - \$45B annually for charitable donations
  - \$120B in impact investments
- **The opportunity really is two markets: charitable giving and impact investing**
  - People think of giving and investing as two separate decisions
- **These market opportunities are fully addressable**
  - There are concrete steps that can be taken to ‘unlock’ each of these markets
- **Unlocking these markets requires integrating donor and investor perspectives into marketing and operations**
  - Trying to supply products and services to these markets without a clear view of consumer demand and behavior risks misplacing valuable time and money



## Where to go from here

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- **Incorporate lessons learned about donor and investor behavior within the nonprofit and impact investing sectors**
  - Disseminate findings
  - Incorporate insights into marketing and operations within specific organizations
  
- **Develop a clear path for addressing each market opportunity**
  - Test, evaluate and refine ideas
  - Prioritize efforts based on the market opportunity a particular idea could unlock
  - Establish partnerships through the sectors to deliver on each priority
  
- **Continue to learn about and incorporate donor and investor preferences and behaviors into strategy and operations**
  - Next level of detail on how to encourage donors to act on performance (and therefore move more donations to higher performing organizations)
  - Next level of detail on what investors are looking for in impact investments

# Agenda



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- 6. Appendix p 94 – 106**



# About Us: Hope Consulting

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## WHAT WE DO

We're a general strategy consulting firm that identifies big social sector issues, and crafts strategies to address them

## WHO WE ARE

We are experienced consultants from elite strategy firms, including Marakon Associates and the Boston Consulting Group

We engage investment bankers, market researchers, and other specialists to provide targeted expertise on an as-needed basis

## HOW WE ARE UNIQUE

Deep “customer” research capabilities – to understand what donors, investors, or beneficiaries need to change their behavior

Tailored staffing model – building the best team for your needs

Deep experience in the social sector – allowing us to develop programs and strategies that work for the sector



## About Us

### HOPE NEIGHBOR, FOUNDER AND CEO

Hope has extensive experience helping public and private sector organizations to increase their impact, as a consultant and as a practitioner. Her experience ranges from advising a Fortune 50 medical products company on becoming the US market leader in infection prevention to structuring national development programs in Africa.

Prior to Hope Consulting, Hope was a strategy consultant with Marakon Associates, a boutique strategy firm serving Fortune 500 clients. At Marakon, Hope worked with senior leadership of publicly traded healthcare, hospitality, and retail companies on growth strategy.

Previously, Hope worked at the World Bank, where she was integral to the design and supervision of a \$270M loan and grant portfolio. Hope was a field coordinator for the International Rescue Committee in Burundi, and a Peace Corps volunteer in Cameroon.

Hope holds a MPA from the Woodrow Wilson School at Princeton University and a BA in Public Policy Analysis from Pomona College, where she graduated with departmental distinction.

### GREG ULRICH, PROJECT LEAD

Greg brings deep strategy consulting expertise to the Money for Good initiative.

As a Principal with Marakon Associates, Greg managed the firm's 30-person West Coast operations and led multi-million dollar consulting engagements. Greg's industry experience spans financial services, nonprofits, healthcare, energy, and industrial manufacturing. He has customer research experience, including surveying thousands of customers to understand opportunities for improving a leading healthcare company's products and services.

Greg also has deep interest in the social sector. He is the chairman of a Bay Area international foundation, founded a nonprofit foundation focused on children's education, and initiated a nonprofit consulting practice while at Marakon.

Greg holds an MBA with a concentration in Finance from the Wharton School, University of Pennsylvania, where he was a Palmer Scholar. He graduated *summa cum laude* with a BS in Economics from Duke





## About Us

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### JULIAN MILLIKAN

Julian is a strategy consultant with eight years of experience. His focus is on translating customer insights into financial results. Julian's most recent project involved developing a new growth strategy for a leading shoe and apparel retailer, advising the client on growth within and outside the core business.

Prior to Hope Consulting, Julian was a manager with Marakon Associates. At Marakon, Julian provided strategic advisory to senior leadership across a range of industries, including retail, financial services, and consumer products.

Julian holds an MBA from the Kellogg School of Management and both a BS in Economics from The Wharton School and a BAS in Systems Engineering from The School of Engineering at the University of Pennsylvania, from which he graduated *cum laude*.

### DAVID MEER, ADVISOR

David is one of the world's leading market science practitioners. He is regarded as an authority on helping large corporations achieve profitable growth through superior customer insight.

David has advised companies in the US, Europe and Asia across a wide variety of industries, including consumer goods, financial services, pharmaceuticals, and telecommunications.

David recently joined Booz Allen Hamilton as a partner. Previously, David was a partner and Chief Marketing Officer with Marakon Associates, where he created and led the firm's practice in using customer insight and advanced analytics to drive growth.

Prior to joining Marakon, David held senior leadership positions at MindShare (WPP) and the market research firm NPD. David began his career at Yankelovich, Skelly and White, where he worked on the study of social trends and their impact on consumer behavior.

A former professional bass player, David continues to play with jazz and rock groups around New York.

## Our Funders



*The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations that invest money and expertise to propel entrepreneurship in emerging markets*



*The William and Flora Hewlett Foundation has been making grants since 1967 to solve social and environmental problems at home and around the world*

### THE METANOIA FUND

*The Metanoia Fund is a Boston based family foundation that funds innovative projects and organizations in the social sector*



*The Rockefeller Foundation supports work that expands opportunity and strengthens resilience to social, economic, health, and environmental challenges—affirming its pioneering philanthropic mission since 1913 to “promote the well-being” of humanity*

# Our Stakeholders



## Our Research Partners



*At e-Rewards® Market Research, our passion for quality and client service drives us to provide the highest quality online market research panels and online data collection services in the industry*

e-Rewards provided the panel of respondents and the programming and hosting of the online survey



*Compass<sup>(x)</sup> Strategy is a brand strategy and marketing firm dedicated to helping grow companies that are inspired to make a better world through business*

Compass<sup>(x)</sup> Strategy contributed to this initiative's qualitative research



*No business can sustain growth – especially profitable growth – unless it develops an understanding of and relationship with its customers. Engage123 offers the integration of Market Research, CRM, and Data Analysis with the end result being a very powerful means of growing profitable businesses*

Engage123 conducted the analytics to produce the segmentation



*David Meer is founder of Clavis Consulting, and one of the world's leading marketing science practitioners. David is regarded as an authority on helping large corporations achieve profitable growth through superior customer insight*

David provided valuable insight on the design and findings of the quantitative research



## Industry Interviews, with thanks

Name	Position	Organization
• David Almodovar	Principal, Customized Investments	Credit Suisse
• Shari Berenbach	President and CEO	Calvert Foundation
• Mel Carter	Investment Specialist	Credit Suisse
• Ethan Cohen-Cole	Assistant Professor, Finance	University of Maryland
• Sean Foote	Managing Director	Labrador Ventures
• Timothy Freundlich	SVP, Calvert Giving Fund	Calvert Foundation
• John Goldstein	Co-Founder, Managing Director	Imprint Capital Advisors
• Tessa Hebb	Director	Carleton University
• Kevin Jones	Principal	Good Capital
• Holden Karnofsky	Founder	GiveWell
• Carrie McGarry	Marketing Manager	Calvert Foundation
• Preston Pinkett III	VP, Social Investment	Prudential
• Charles Rosenblatt	President	Payments & Loyalty Consulting
• Beth Sirull	Executive Director	Pacific Community Ventures
• Art Stevens	VP, Investor and Donor Relations	Calvert Foundation
• Tracey Turner	Founder	Microplace
• Dennis Whittle	Founder and CEO	GlobalGiving



# Segmentation Methodology

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A core element of our research and analysis was developing behavioral segments of donors and investors

These segments were developed using gold-standard methodology that is widely used in corporate America. Respondents were first provided with questions that forced them to trade-off different reasons for making donations or investing in impact investments. Engage123, a firm that specializes in this work and has created behavioral segments for numerous Fortune 500 corporations, then ran cluster analyses on these responses to derive the segments

We tested many permutations of the segments until we arrived at the smallest number of groupings where donors were similar within a segment, but different across segments

# Segmentation Methodology: Using “Max / Diff” to get to behaviors

## The Maximum Difference Exercise (Max-Diff)

- Respondents were shown a series of 14 questions, each of which showed four of the response choices on page 25
- For each set of four choices, respondents were asked to choose the most and least important statement
- The exercise was repeated for the response choices on page 69

Continue to think about a typical charitable donation you made in 2009. Please select the most important and least important reason why you decided to make a donation to that particular organization?

	Most Important	Least Important
▪ The organization works in my local community	<input type="radio"/>	<input type="radio"/>
▪ This organization is better than others at addressing social issues	<input type="radio"/>	<input type="radio"/>
▪ Giving to this organization fits with my religious beliefs	<input type="radio"/>	<input type="radio"/>
▪ A friend, colleague, or family member asked me to give	<input type="radio"/>	<input type="radio"/>

## The Benefits of Max-Diff

- Typical survey questions ask respondents to rate the importance of an attribute independently of other attributes (e.g., “please rate each of these statements on a 1-6 scale”)
- These exercises allow respondents to say that everything is important and doesn’t accurately assess behavior
- The MaxDiff exercise instead forces respondents to make trade-offs and measures the importance of each attribute **relative to the others**
- Because of the trade-off nature of the exercise, the MaxDiff is more representative of actual behavior

# Segmentation Methodology: How we created the segments (charity example)

To create segments, we first used specialized software to assign an importance score to each attribute tested below, for each respondent. We then used cluster analysis to identify discrete groups of respondents, or segments. As with any econometric analysis, we went through several iterations to identify the strongest set of segments.

Yellow boxes represent the group of criteria that define a segment

	Personal Ties	Devout	Casual Giver	Repayer	High Impact	Make Local Difference	Total
	15%	15%	18%	22%	16%	14%	
Personally familiar with organization/leadership	26%	3%	4%	3%	2%	5%	7%
Friend asked me to give	10%	0%	1%	2%	1%	1%	2%
Social or professional network	5%	0%	1%	1%	0%	1%	1%
Support friend's charities	3%	0%	0%	0%	0%	0%	1%
Fit with religious beliefs	2%	65%	2%	1%	2%	3%	11%
Org is established and respected	8%	3%	27%	4%	7%	7%	9%
I will be recognized or appreciated	1%	0%	4%	1%	0%	1%	1%
Easy to give through work	1%	0%	3%	0%	0%	1%	1%
Social events or gifts	1%	0%	3%	0%	0%	0%	1%
Cause impacts me or a loved one	7%	2%	4%	38%	2%	6%	12%
Underserved social/environmental issue	2%	1%	4%	2%	18%	4%	5%
Organization is most effective	2%	1%	5%	1%	12%	3%	4%
Local community	5%	3%	4%	3%	3%	30%	7%
Small organization - my gift makes a difference	3%	1%	2%	2%	2%	16%	4%
Care deeply about the cause	24%	18%	34%	42%	51%	23%	33%

This criteria is important to everyone. Doesn't dictate behavior, but is rather a 'table stake'. Left out of segmentation

What matters is the relative difference between the criteria in one segment vs. the importance of that criteria in other segments (i.e. delta across rows, not down columns)



# Segmentation Methodology: Interpreting the segmentation results

	<b>Personal Ties</b> 15%	<b>Devout</b> 15%	<b>Casual Giver</b> 18%	<b>Repayer</b> 22%	<b>High Impact</b> 16%	<b>Make Local Difference</b> 14%	<b>Total</b>
Personally familiar with organization/leadership	26%	3%	4%	3%	2%	5%	7%
Friend asked me to give	10%	0%	1%	2%	1%	1%	2%
Social or professional network	5%	0%	1%	1%	0%	1%	1%
Support friend's charities	3%	0%	0%	0%	0%	0%	1%
Fit with religious beliefs	2%	65%	2%	1%	2%	3%	11%
Org is established and respected	8%	3%	27%	4%	7%	7%	9%
I will be recognized or appreciated	1%	0%	4%	1%	0%	1%	1%
Easy to give through work	1%	0%	3%	0%	0%	1%	1%
Social events or gifts	1%	0%	3%	0%	0%	0%	1%
Cause impacts me or a loved one	7%	2%	4%	38%	2%	6%	12%
Underserved social/environmental issue	2%	1%	4%	2%	18%	4%	5%
Organization is most effective	2%	1%	5%	1%	12%	3%	4%
Local community	5%	3%	4%	3%	3%	30%	7%
Small organization - my gift makes a difference	3%	1%	2%	2%	2%	16%	4%
Care deeply about the cause	24%	18%	34%	42%	51%	23%	33%

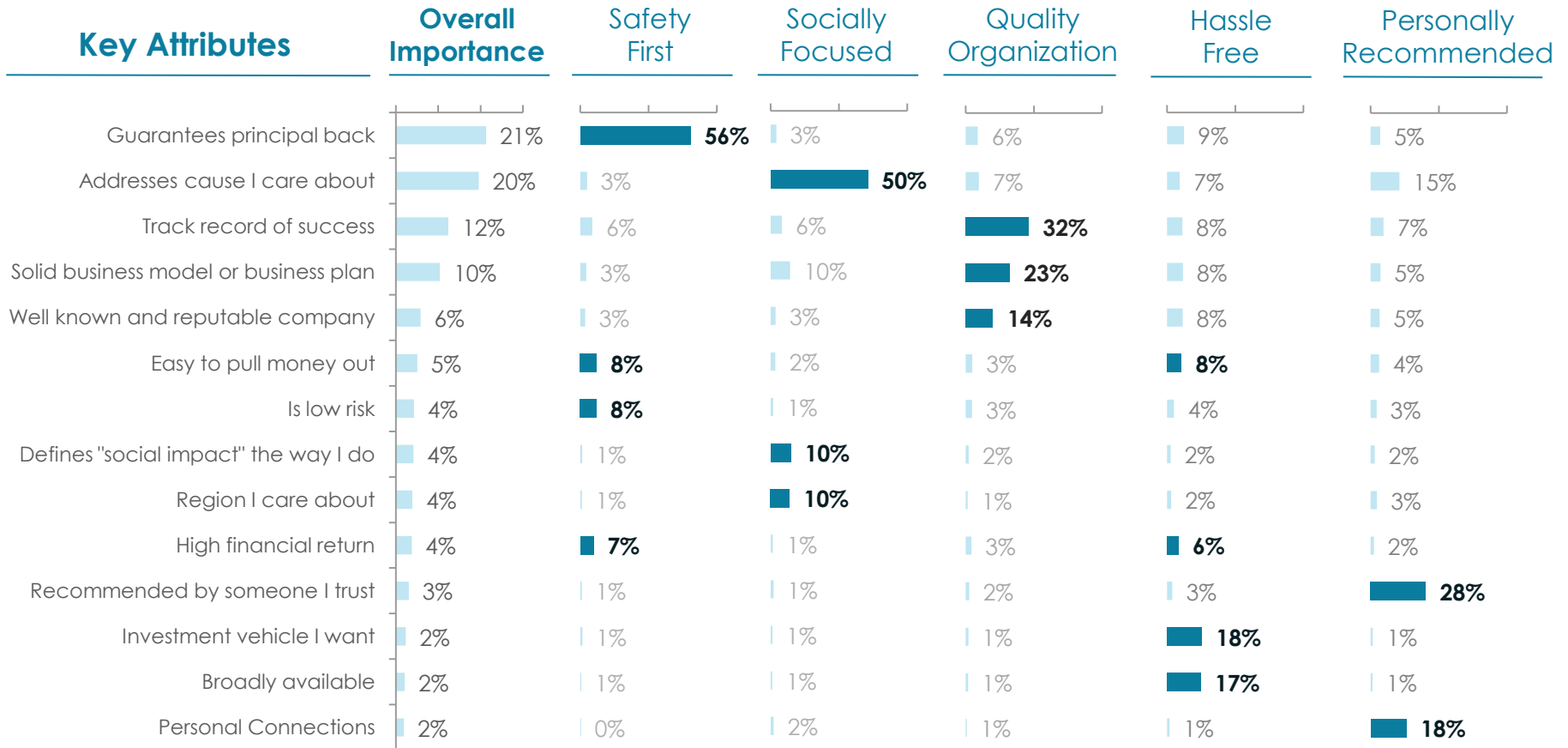
Each % represents the relative importance of this criteria.

The total column represents the average importance of each criteria to the average person

The % in each column represent the relative importance of each criteria to that particular segment



# Detail on the full list of attributes by each impact investing segment



# Methodology: Market Opportunity

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## Opportunity for New Funds

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- Respondents were asked how much money they would donate or invest if their needs were met
- This stated amount was revised downward to account for the overstatement that typically occurs for this type of question
  - Amounts were adjusted based on how certain respondents were to make the stated donation or investment
  - Amounts were also adjusted based on where the funds would come from (if respondents didn't know where the funds would come from, they are less likely to do what they stated)

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## Opportunity for Switchable Funds

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- Donors were asked to provide the following for their “five most significant gifts” made in 2009:
  - Amount of gift
  - Likelihood of repeat gift in 2010
  - Whether donations were also made in 2008 and 2007
- Loyalty was assessed based on a combination of two factors:
  - Likelihood of making a repeat gift in 2010 (stated loyalty)
  - Consistency of gifts made in the last three years (observed loyalty)