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TRENDS IN PHILANTHROPY: MORE EQUALS LESS FOR ARTS SECTOR

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Among the research available to development officers in the arts and culture sector, the annual reports of three organizations — *Giving USA*, the Association of Fundraising Professionals, and The Foundation Center — stand out for their clear analysis of developing trends in philanthropic giving. Each provides information of interest to arts organizations as they prepare and assess their development strategies. A summary of trends identified by the latest annual reports of these organizations appears below.

GIVING OVERALL REACHES RECORD LEVELS

Giving USA, a publication of the Giving USA Foundation, researched and written by the Center on Philanthropy at Indiana University, reports that total charitable giving reached an all-time high of \$260.28 billion in 2005 (a growth of 6.1% over 2004). Individual giving increased by 6.4% to \$199.07 billion (up from 4% growth the year before.) Giving USA estimates that about half of the \$15 billion in growth was attributable to funds raised to support relief efforts for the South Asian tsunami and Katrina relief. Individuals contributed an estimated 79% of such giving to relief funds.

The *Giving USA* numbers support earlier findings by the Association of Fundraising Professionals (AFP). AFP's *State of Fundraising 2005* report released in July found that 62.9% of surveyed U.S. nonprofits raised more money in 2005 than 2004 and that more than 66% reached their fundraising goals for the year. While some non-profits surveyed by AFP believed that support for victims of the tsunami and Hurricane Katrina would dramatically affect giving to non-relief charities, two-thirds of respondents concluded they had experienced no such impact on their organizations' fundraising efforts.

GIVING TO THE ARTS AND HUMANITIES DECLINED IN 2005

Despite an overall growth in charitable giving, Giving USA reports that contributions to the arts, culture and humanities sub-sector declined in 2005, to \$13.51 billion, a drop of 3.4% (-6.6% adjusted for inflation). This is the first pre-inflation adjusted decline reported since 1998.

Other Highlights from Giving USA's report:

- 59% of respondents reported an increase in charitable receipts for 2005 – the highest percentage since 2000.
- Foundation grant making rose 5.6%.
- Corporate donations grew by a record 22.5% (Partly as a result of disaster response and growth in pre-tax corporate profits).
- Charitable bequests fell 5.5% (Largely due to demographic factors including an actual decline in deaths for that year).

The *Giving USA* report can be ordered online at <http://www.aafrc.org/gusa/>.

ECONOMY NO LONGER RANKED AS TOP CONCERN

The AFP's *State of Fundraising 2005* does not track giving by sector as carefully as Giving USA's report, but it does analyze results of specific campaigns as compared to the previous year. In the U.S., direct mail, online fundraising and special events were less successful in 2005, down 7% to 9%, while major-gift fundraising, telemarketing and planned giving all experienced small increases. Canadian respondents saw similar results with the interesting exception that they experienced a significant increase in direct mail success.

In 2005 increased competition, rather than the economy, for the first time ranked as the biggest challenge by both Canadian and U.S. charities who responded to the survey. This year "increased competition for the charitable dollar" was the primary concern of 42.2% of respondents. The economy was second at 34.3%. Nevertheless, nonprofit organizations in the both the U.S. and Canada were optimistic about their fundraising success for 2006. Nearly seven in 10 respondents believed their organizations will raise more funds this year than in 2005.

The *State of Fundraising 2005* report can be found on the AFP website at www.afpnet.org.

FOUNDATION GIVING CONTINUES SLOW, STEADY GROWTH

Not surprisingly, *The Foundation Center* focuses its analysis on foundation giving. Its report, *Foundation Growth and Giving Estimates: Current Outlook (April, 2006)*, presents data for 2005 indicating that the nation's 68,000+ grant making foundations increased support by nearly 5.5% to \$33.6 billion. Like the total charitable giving figure reported by *Giving USA*, this figure marks an historic highpoint. Even so, the percentage of foundations increasing the number of grants they made in 2005 (32%) was nearly unchanged from 2004. Still this represents a clear improvement from the declines experienced in 2002 and 2003 when stock market losses and other factors resulted in decreases in foundation assets and giving. The report concludes that stock market growth, newly established foundations, higher gift levels to existing foundations, and funds raised to support relief efforts for the tsunami and Katrina were the primary factors influencing growth in 2005.

The Foundation Center report predicts that the lingering impact of the economic downturn in the early part of the decade as well as a lack consistently strong growth in assets will limit increases in giving from endowed foundations in 2006. Just over half of the survey's foundation respondents expected to increase their giving in 2006. However, the share that expected to reduce giving climbed to 32%, up from 25% last year and 18% the year before.

Sara Engelhardt, The Foundation Center's president, suggests that "The outlook for 2006 is uncertain at best [but] overall giving will likely hold steady." The report concludes that, accounting for inflation, giving through the end of 2006 will be "flat."

Foundation Growth and Giving Estimates: Current Outlook (April, 2006) can be downloaded from The Foundation Center's website:

www.foundationcenter.org/gainknowledge/research/nationaltrends.html

Now through October is a particularly good time to investigate the many resources available on this website, as The Foundation Center celebrates its *Fifth Annual Funding for the Arts Month*. Visit www.foundationcenter.org/focus/arts/ for details. Registration takes less than a minute and is free.

SHORT-TERM STRATEGIES CAN THREATEN LONG-TERM SUCCESS

Smaller organizations are particularly vulnerable to the declines in giving experienced in the arts sector in recent years (and highlighted by Giving USA's report for 2005). If your organization finds itself in a position of declining revenues, this may be the time to actually *increase* resources allocated to prospect research.

Previous reports from *Giving USA* have shown that organizations with charitable contributions of less than \$1 million per year are less likely to recover after a drop in giving levels than are larger organizations. One reason larger organizations bounce back more quickly is that they are more likely to have resources in place to continue aggressive fundraising activities when giving is down (as it was in 2002 and 2003 and, for the arts sector, in 2005). Studies of advertising over the past thirty years show a similar effect. Companies that reduce advertising when the economy is weak lose market share to competitors who maintain advertising budget levels, a loss that continues to persist long after market conditions improve.

Success in the long-term requires that smaller organizations consider this factor when allocating scarce resources. It is essential to maintain long-term relationships and to continue prospecting during periods of flat or negative growth. This is not the time to reduce resources dedicated to prospecting and development efforts.

Be sure to maintain the resources necessary to be informed of new foundations in your community and to establish and maintain strong relationships with the program officers of foundations that are a good fit for your organization. Such relationships are essential to successful fundraising and continued support. Understanding individual donor capacity through effective research is also a key element in identifying strong prospects. In uncertain times, such research and relationships can be vital to future growth.

CURRENT TRENDS MAY INSPIRE NEW THINKING

For many arts organizations, the end of the summer represents the closing of one fiscal year and the beginning of the next. This is an appropriate time to celebrate successes and rethink missed opportunities, yet many arts organizations do not take advantage of this annual opportunity for strategic assessment. Still fewer access updated information on national philanthropic trends to inform their annual review.

Adjusting long-term strategies and goals to respond to year-end data such as that presented in the reports outlined above can be an important element in effectively measuring and managing your organization's performance. Such a review may provide valuable guidance in assessing your current position and new perspectives in shaping effective plans for long-term success. Whatever your organization's size or financial position, keeping abreast of the changing fundraising landscape will help to ensure that your organization's development strategies remain informed, focused, and successful.

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