

# Report

## Global Trends in the Not-for-Profit Sector Industry Report

Trends and Challenges

25<sup>th</sup> October, 2011



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## Not-for-profit Sector

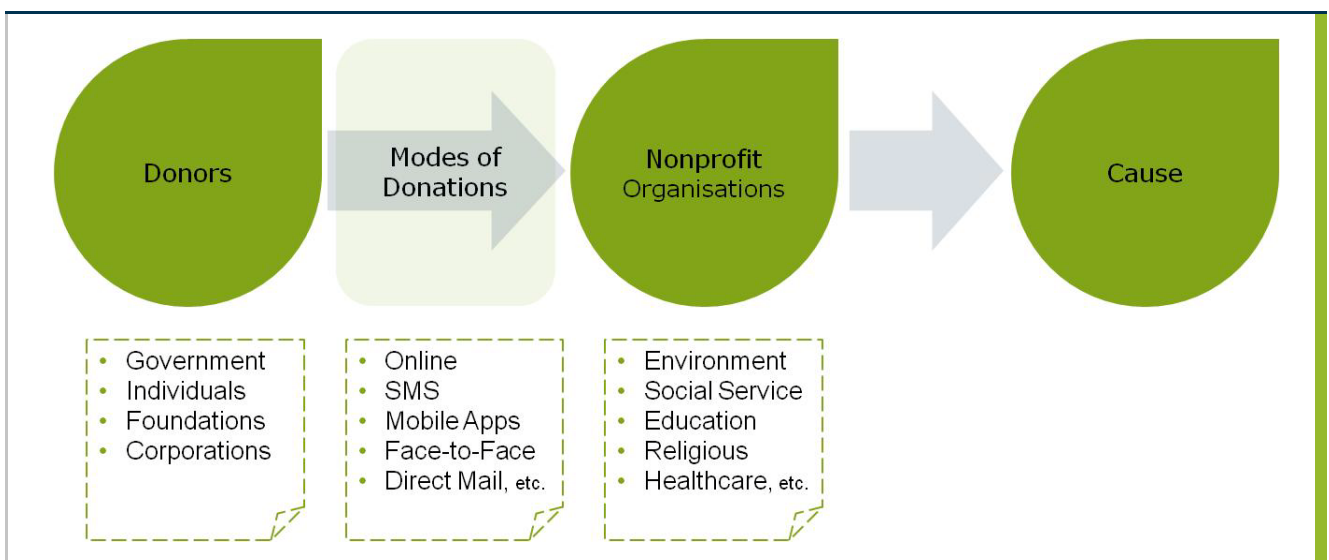
### Industry Definition

According to the NAICS, the not-for-profit (non-profit) industry comprises of establishments primarily engaged in promoting the civic and social interests of their members.

Non-profit organisations are created for the welfare of the community and are run by donations from various sources such as government grants, corporations, individuals and foundations. Activities of a non-profit organisation may be of a patriotic, national, charitable, philanthropic, religious, professional, or athletic nature without monetary gain. Directors, officers and/or members of a non-profit corporation do not own the corporation or its assets. The organisation is not operated for financial gain for its members, officers or directors.

### Value Chain

The figure below shows the value chain of the non-profit industry:



### Summary of Trends and Industry Outlook

Every time there is an economic slowdown or a financial crisis, societies tend to place humanitarian causes on the backburner. As a result, non-profits around the world had to face a major funding crunch during 2009–10.

The financial crisis prompted non-profits to explore new modes of operations that allow them to pool resources and combine multiple programmes. For 2012, most non-profits expect that there will be an improvement in private funding and government grants.

This report highlights some of the major trends that will characterise the non-profit sector in the medium term.

**Individual donors will remain the largest contributors**

Individual donors will continue to be the largest donor group among all other sources, even though their motivations towards charitable donations have changed over time.

Individuals now want a more involved role with the humanitarian cause that they are supporting and wouldn't like to be treated only as a source of funds. The need to get recognised for the contributions they are making is also prominent among individual donors.

**Big ticket investments from Foundations would continue**

Foundations backed by very high-net-worth individuals have been known to make large investments for causes of their choice. As emerging economies add more millionaires and billionaires to the world economy, funding from foundations could increase proportionally.

The endowment model of investing for foundations is expected to continue, despite the recent criticism of the lack of liquidity due to this method of investing.

**Online marketing strategy will be critical**

Online marketing strategy will be critical for non-profits for fundraising, marketing and generating awareness for their cause.

Non-profits are developing new approaches to social media and are developing a communications strategy to revamp the way they connect with their donors. Such moves will help them establish relationships with new donor segments.

**Non-profits are joining forces to cut costs and share resources**

As a result of the funding crunch during the recession, many non-profits started forming alliances that created a common pool of funds and also combined their various programmes under one umbrella.

This new form of strategic alliance has helped some non-profits to focus more on their projects while leaving the administrative functions to a centralised department. With the freed up resources, some non-profits are now creating dedicated teams for marketing, communications and fundraising.

*Individuals now want a more involved role with the humanitarian cause that they are supporting and wouldn't like to be treated only as a source of funds.*

*The endowment model of investing for foundations is expected to continue, despite the recent criticism of the lack of liquidity due to this method of investing.*

*Online marketing strategy will be critical for non-profits for fundraising, marketing and generating awareness for their cause.*

## Global Trends in the Non-profit Sector

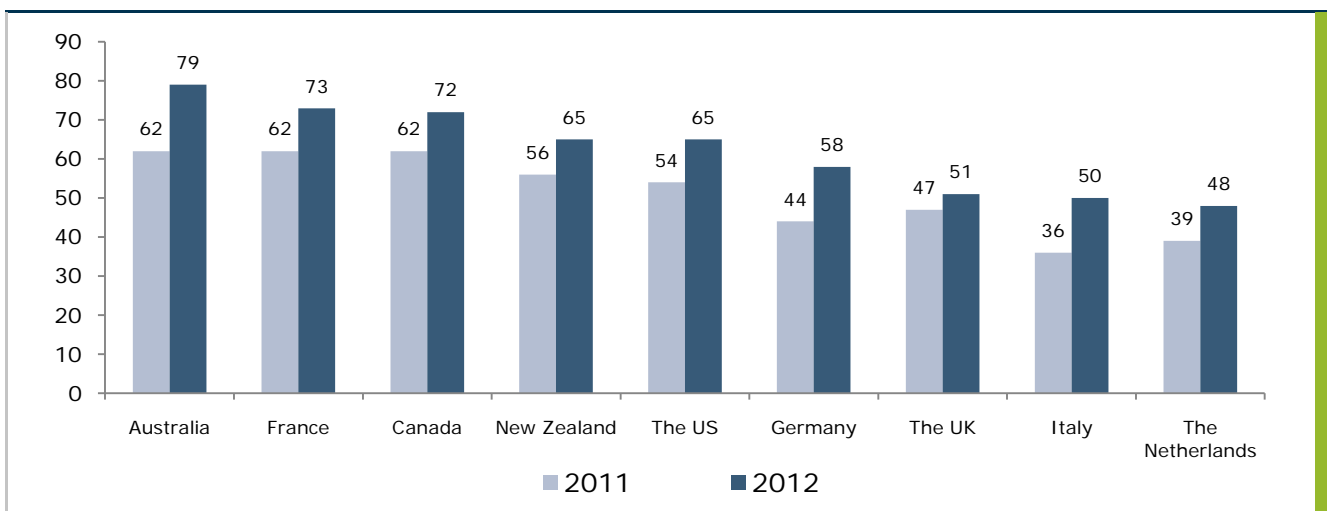
### Not-for-profit funding will improve across all modes

Non-profits that rely heavily on government grants and contracts had been significantly affected by the recession. In the US, in 2010, more than 40 states reduced spending on services such as health care, education, and care for the elderly and disabled. The Blackbaud Index of Charitable Giving (representing 1,468 organisations, with USD 2.2 billion in charitable income) also showed a decline in charitable giving throughout 2010.<sup>1</sup>

However, there has been some recovery in FY 2011, so far. The Blackbaud Index showed an increase in the overall charitable giving until August, 2011.<sup>2</sup> This is in line with the expectations of non-profits as highlighted in Blackbaud's survey conducted in 2010, where a majority (more than 50%) of the non-profits, in seven out of ten countries, were expecting an increase in charitable donations in 2011.

In the survey conducted in October 2011 by Blackbaud, majority of non-profits, in almost all countries, are expecting the charitable donations to increase in 2012.

**Figure 1: Percentage respondents expecting an increase in donations in 2011 and 2012**



Source: [Blackbaud – 2010 State of the Nonprofit Industry Survey](#)

Economists believe that charitable giving for various causes is set to increase in the days to come. Following are some of the factors that will drive charity giving<sup>3</sup>:

- Large individual donations come from ultra high-net-worth individuals. The global population of Ultra-HNWIs grew by 10.2% to reach 103,000 in 2010.<sup>4</sup>
- Statistics reveal that people tend to donate more with age. An aging world population could therefore mean good news for charitable donations and bequests. Some experts forecast that Americans may give USD 6 trillion to charities over the next half century.

<sup>1</sup> [http://www.blackbaud.com/files/resources/downloads/bbindex\\_report\\_jan2011.pdf](http://www.blackbaud.com/files/resources/downloads/bbindex_report_jan2011.pdf)

<sup>2</sup> <http://www.blackbaud.com/files/graphs/bbindex.html>

<sup>3</sup> [http://investmentinsights.ubs.com/resources/pdfs/the\\_decade\\_ahead\\_report.pdf](http://investmentinsights.ubs.com/resources/pdfs/the_decade_ahead_report.pdf)

<sup>4</sup> [World Wealth Report 2011 - Capgemini](#)

- There is a greater awareness towards humanitarian causes, thanks to technology and platforms such as online social networks. Both non-profit organisations and donors actively use online and offline means of communication to actively highlight their cause.

The following section highlights the major trends in charitable fundraising among the four key donor groups namely, individuals, foundations, corporations and governments.

**Individual donors seek measurable outputs**

In most countries, individual donations are one of the major sources of charitable income for non-profit organisations. If individual donations through foundations and bequests are also combined then they together account for the largest share of charitable contributions to non-profit organisations. Individual contributions, in the US alone, were over USD 300 billion in 2009.

**Change in motivations for new and old individual donors**

While there is overwhelming support from individuals for causes concerning humanitarian welfare, there has also been a significant change in the motivations that drive individual donations. Individual donors today are much better informed about the cause they are supporting and want their money to have a measurable impact. Today’s individual donors are also keen on receiving the society’s attention for their contributions. This is in contrast to donations made by individuals from older generations, in which case donations were mostly made to satisfy their conscience.

**Figure 2: Changing motivations for older and newer generation philanthropists**



**Small donors team up to make their contributions count**

High-net-worth individuals often make large donations, which not just provide monetary help to that cause but also galvanise media attention and increase the cause’s awareness.

Individual donors who are not making massive donations are increasingly joining forces to achieve their philanthropic objectives. Fostering this trend is the increased availability of information (through online and offline sources) and social networks. Non-profits such as Kiva, an online non-profit organisation that allows people to lend money via the Internet to microfinance institutions in developing countries, are using this trend to let donors contribute to underprivileged entrepreneurs with little access to credit. As a result, individual donors are able to collectively make a difference to the enterprise of their choice.

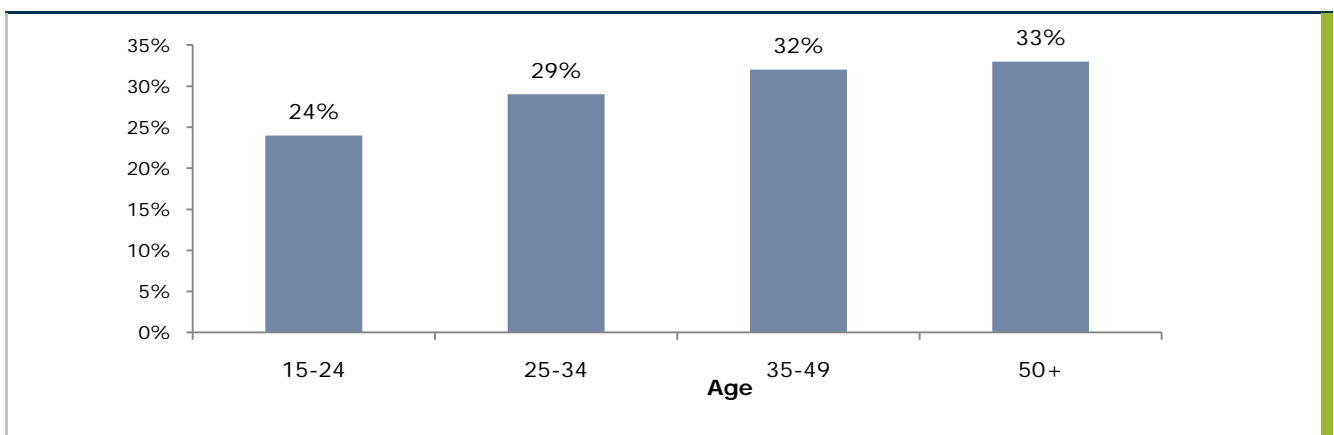
Experts believe that this kind of “purpose-driven” charitable donations marks a fundamental shift in the nature of giving and as a result individual donors can allocate funds more efficiently and effectively.<sup>5</sup>

### Individual donors vary with age and gender

Studies highlight that globally, giving money to charity increases with age. A survey shows that while 24% of 15–24 year olds make charitable donations, in the age group of 50 and above 33% engage in charity. This trend is generally considered to correspond to increasing disposable income.

The survey also shows that globally, women are more likely to make charitable donations but are less likely than men to volunteer for a charitable cause.

**Figure 3: Variation among individual donors with age**



Source: [World Giving Index](#)

### Foundations will continue to lead in making large donations

Foundations can be either backed by a high-net-worth individual or family, or corporations or they can be supported by the government. Some of the biggest charitable contributions that have been made in the recent past are by individuals or family-backed foundations.

Noteworthy among these is the Gates Foundation which had an endowment of USD 33.5 billion as of 31 December 2009. In 2006, Warren Buffett pledged USD 30 billion of his assets over 20 years to this foundation, making it the largest charitable gift in history. In 2010, the foundation launched a decade-long initiative pledging USD 10 billion for research to develop and deliver vaccines for the world’s poorest countries.

### Endowments will continue to invest in alternative assets

To meet their liquidity requirements, most foundations especially educational foundations follow the endowment model of investing through which a long-term fund is structured. This fund invests in alternative assets such as private equity and hedge funds to maximise future gains. It is assumed that even if there is an economic slowdown, endowments can hold onto illiquid assets and wait until asset valuations rise.<sup>6</sup>

<sup>5</sup> [http://investmentinsights.ubs.com/resources/pdfs/the\\_decade\\_ahead\\_report.pdf](http://investmentinsights.ubs.com/resources/pdfs/the_decade_ahead_report.pdf)

<sup>6</sup> [http://money.cnn.com/2010/07/06/news/economy/university\\_endowments.fortune/index.htm](http://money.cnn.com/2010/07/06/news/economy/university_endowments.fortune/index.htm)

However, during the financial crisis, poor returns and liquidity difficulties made many foundations reconsider their expansion strategy into the alternative investment space.

Experts believe that this won't have a major impact on the way endowments and other charitable organisations will be managed in future holdings of alternative investments, such as hedge funds, private equity, commodities and real estate, will continue to increase in the decade ahead.<sup>7</sup>

### Corporations play an active role in philanthropy

Corporate participation in charitable donations has evolved from a source of occasional gifts to the local church/charity to a more involved role. Corporations are fast becoming a widely recognised and easily accessible source of funding for non-profit organisations.

Support from corporations is in different forms and is not just limited to financial grants. Corporate support is mostly targeted towards forging relationships with the community and therefore, targets the local community and its issues.<sup>8</sup>

**Figure 4: Key drivers of corporate charitable donations**



In order to establish its commitment towards environmental and social responsibilities, P&G started its Children's Safe Drinking Water Programme on a not-for-profit basis. It distributes "PUR" packets to purify water and has purified more than 2.5 billion litres of drinking water in more than 60 countries.<sup>9</sup>

### Government grants will increase in future

In a survey conducted by Blackbaud in 2010, non-profit organisations in most countries revealed that funding from government grants is the fourth most prevalent/important source of funding after individual donors, foundations and corporate donations, in that order.<sup>10</sup>

<sup>7</sup> [http://investmentinsights.ubs.com/resources/pdfs/the\\_decade\\_ahead\\_report.pdf](http://investmentinsights.ubs.com/resources/pdfs/the_decade_ahead_report.pdf)

<sup>8</sup> [http://www.unoy.org/unoy/wp-content/uploads/downloads/2011/08/110712\\_UNOY\\_New\\_Fundraising\\_Trends\\_Guide3.pdf](http://www.unoy.org/unoy/wp-content/uploads/downloads/2011/08/110712_UNOY_New_Fundraising_Trends_Guide3.pdf)

<sup>9</sup> [http://investmentinsights.ubs.com/resources/pdfs/the\\_decade\\_ahead\\_report.pdf](http://investmentinsights.ubs.com/resources/pdfs/the_decade_ahead_report.pdf)

<sup>10</sup> [http://www.blackbaud.com/files/resources/downloads/Research\\_SONI\\_GlobalComparisonUS.pdf](http://www.blackbaud.com/files/resources/downloads/Research_SONI_GlobalComparisonUS.pdf)

Developed countries from Europe and America provide grants for the economic welfare of developing nations. The Development Assistance Committee (DAC) within the OECD provides Official Development Assistance (ODA) to world’s less developed countries. In 2008, some of the largest donation-receiving nations were Ethiopia, Afghanistan and Iraq.

In 2010, the net ODA reached USD 128.7 billion up by 6.5% y-o-y. The key issues which attract most of the ODA are health, economic infrastructure and climate change.

The figure below shows the results of a survey conducted by Blackbaud in 2010, indicating the countries where a majority (more than 50%) of the non-profit organisations expect an increase in funding from different types of donors. In most of the countries, non-profits expect individual donations to increase.

**Figure 5: Country-wise expectations of non-profits for increase in charitable donations**

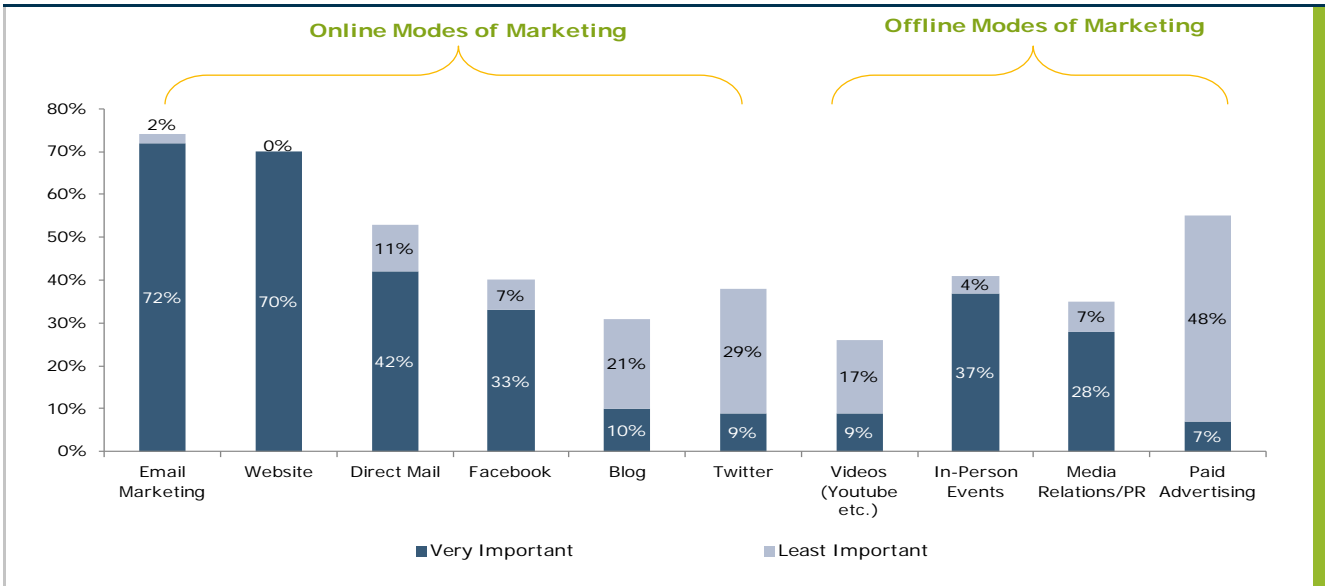
DONOR TYPE	COUNTRIES						
Individual donors	Australia	France	Germany	India	New Zealand	Canada	The US
Foundation Grants	India						
Corporate Donations	France	India	New Zealand				
Government Grants	India						

## Changing modes of marketing and fundraising for non-profits

### More focus towards online marketing

The figure below shows the results of a survey of 780 non-profits conducted in December 2010. Results indicate the prevalence of online marketing methods over offline marketing methods.

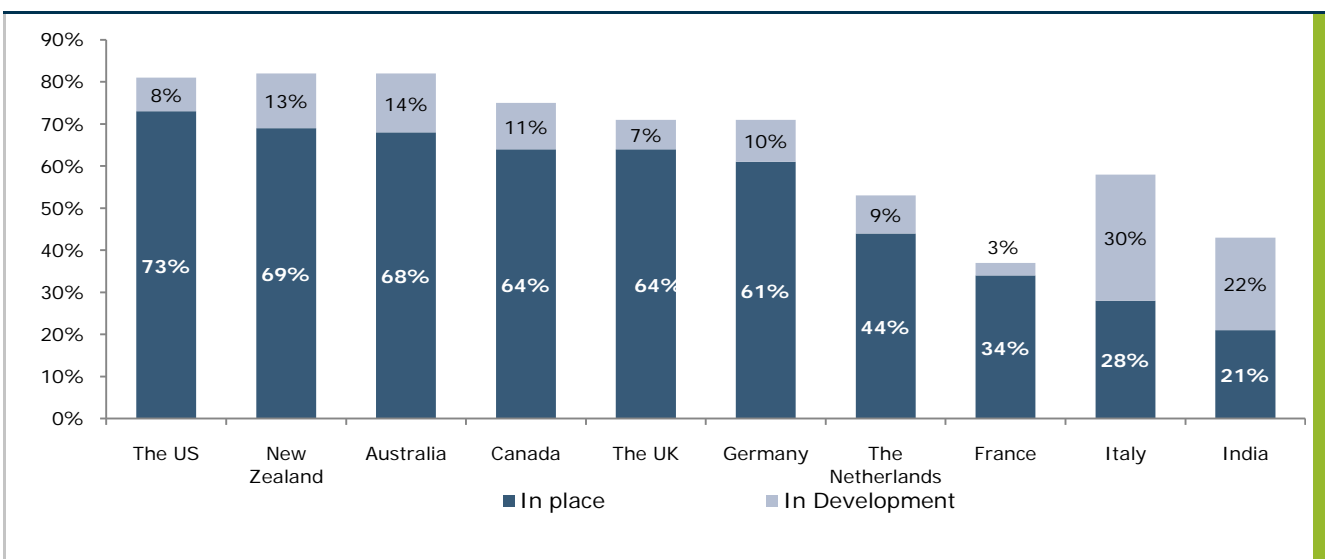
**Figure 6: Prevalence of online marketing modes over offline modes**



For most non-profits, email marketing and websites are the primary and the most important communication and marketing platforms. The relevance of mediums such as SMS's and paid advertising decreased significantly.

Non-profits are now actively allocating budgets towards technology so that they can improve their visibility to donors, generate awareness about their cause and improve their fundraising capabilities. The figure below shows that in nearly all the countries, a majority of the non-profits have allocated budgets for technology enhancement.

**Figure 7: Countries where most of the non-profits have technology budgets in place**



### Online fundraising and the use of social networks

Online charity grew by 34.5% y-o-y for 1,812 non-profit organisations in a Blackbaud study for the US. Large non-profit organisations, which raise more than USD 10 million annually, saw the highest increase at 56% y-o-y.<sup>11</sup>

Non-profits that have been successful in leveraging online resources for fundraising have utilised social media channels as a part of a multichannel strategy that includes email, website, Google ads, and reaching out to the online and mainstream media.<sup>12</sup>

Donors want to be active partners in the non-profits' cause and not merely a resource for cash. Some of the non-profit organisations which have been able to achieve this in their online platforms include Kiva, DonorsChoose.org, Social Vibe, Facebook Causes and Tweetsgiving. All of these websites allow donors the flexibility of selecting the cause they want to support and raising awareness for it, thus giving donors a sense of greater involvement.

### Emerging trends and challenges in marketing techniques for non-profits

Non-profits are developing new approaches to social media and are developing a communication strategy to revamp the way they connect with their donors. The move will also help them to establish relationships with new donor segments. Critical to this move would be the ability of non-profits to create innovative new content that excites existing and new donors.

There are plenty of non-profits which have just begun exploring the opportunities presented by social media, while there are some who are now using social networks, such as Facebook and Twitter, in a more strategic way to engage donors.

Non-profits also face challenges in fulfilling their marketing and communications objectives. Apart from the concerns around the economic uncertainty, some of the non-profits are unsure of their abilities to harness opportunities presented by social networks and other electronic communications platforms. Further, there are others who are not sure whether they will be able to create media content that attracts new donors. There are many non-profits who are concerned about being inadequately staffed and therefore, are unable to have a dedicated team for marketing and communications.<sup>13</sup>

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<sup>11</sup> [http://www.blackbaud.com/files/resources/downloads/Research\\_SONI\\_GlobalComparisonUS.pdf](http://www.blackbaud.com/files/resources/downloads/Research_SONI_GlobalComparisonUS.pdf)

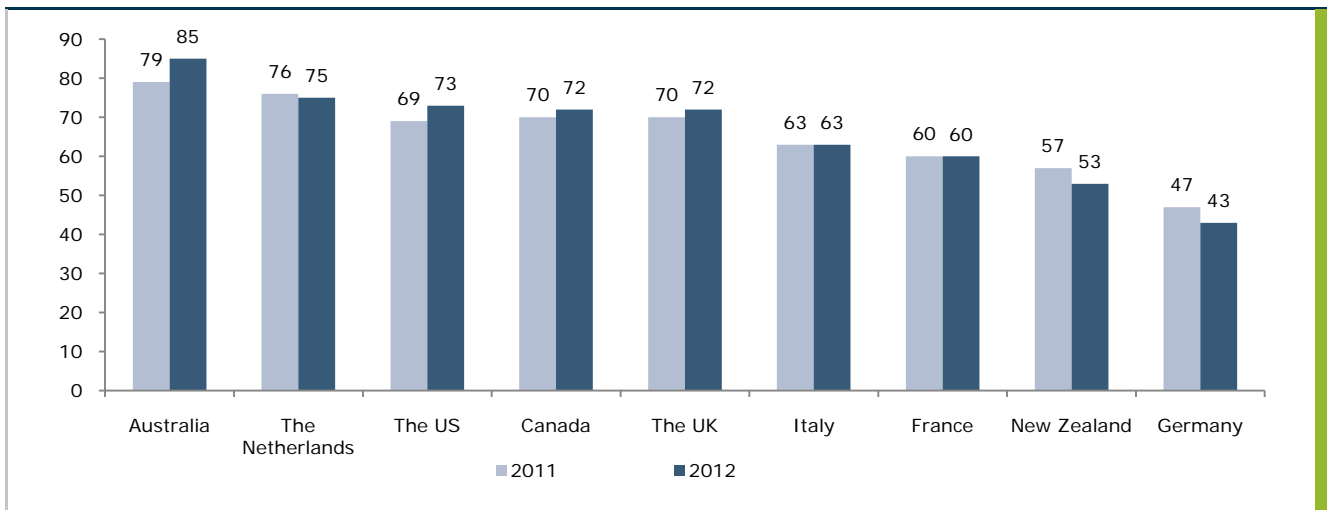
<sup>12</sup> [http://www.unoy.org/unoy/wp-content/uploads/downloads/2011/08/110712\\_UNOY\\_New\\_Fundraising\\_Trends\\_Guide3.pdf](http://www.unoy.org/unoy/wp-content/uploads/downloads/2011/08/110712_UNOY_New_Fundraising_Trends_Guide3.pdf)

<sup>13</sup> <http://www.nonprofitmarketingguide.com/freemembers/2011nonprofitcommtrends.pdf>

## Increasing demand for services could lead to new alliances

The demand for help from charitable institutions has increased to an all-time high. While in the developed economies the financial crisis has increased the unemployment rate significantly, in less developed countries there are major humanitarian concerns which need attention. Nearly 1 billion people worldwide are undernourished and more than 2 billion people lack access to basic water sanitation.<sup>14</sup>

**Figure 8: Countries expecting an increase in demand for services in 2011 and 2012**



Private donations to charities in the US more than doubled between 1987 and 2007 but fell by 6% during the financial crisis in 2008, the largest drop in more than 50 years. State and local government funding for some non-profits can comprise of as much as two-thirds of the charitable income also took a hit during the slowdown. In 2009, US state governments allocated 5% less and 4% less in 2010 to pay for education, health care and human services, with some estimates suggesting that state governments in the US now owe nonprofits more than USD 15 billion in backlogged payments.

In 2009, Catholic Charities of Youngstown, Ohio, saw a 35% increase in requests for help from people who have lost their jobs and homes. At the same time, the charity suffered a 30% cut in funding from its USD 2 million budget.

The increased demand for services and the dried up funds have made non-profits from universities to hospitals, arts councils to homeless shelters, consider restructuring, including mergers, acquisitions, collaborations, cutbacks and closings.<sup>15</sup>

A survey conducted on non-profits in the US in 2009 indicated that close to 17% of the organisations stated that they were seeking help with merger feasibility analysis. It also found that 42% of the organisations had collaborated with other organisations to provide programs or planned to do so.<sup>16</sup>

<sup>14</sup> [http://investmentinsights.ubs.com/resources/pdfs/the\\_decade\\_ahead\\_report.pdf](http://investmentinsights.ubs.com/resources/pdfs/the_decade_ahead_report.pdf)

<sup>15</sup> <http://online.wsj.com/article/SB10001424052748704586504574654404227641232.html>

<sup>16</sup> [http://www.arabellaadvisors.com/images/IB\\_files/Mergers.pdf](http://www.arabellaadvisors.com/images/IB_files/Mergers.pdf)

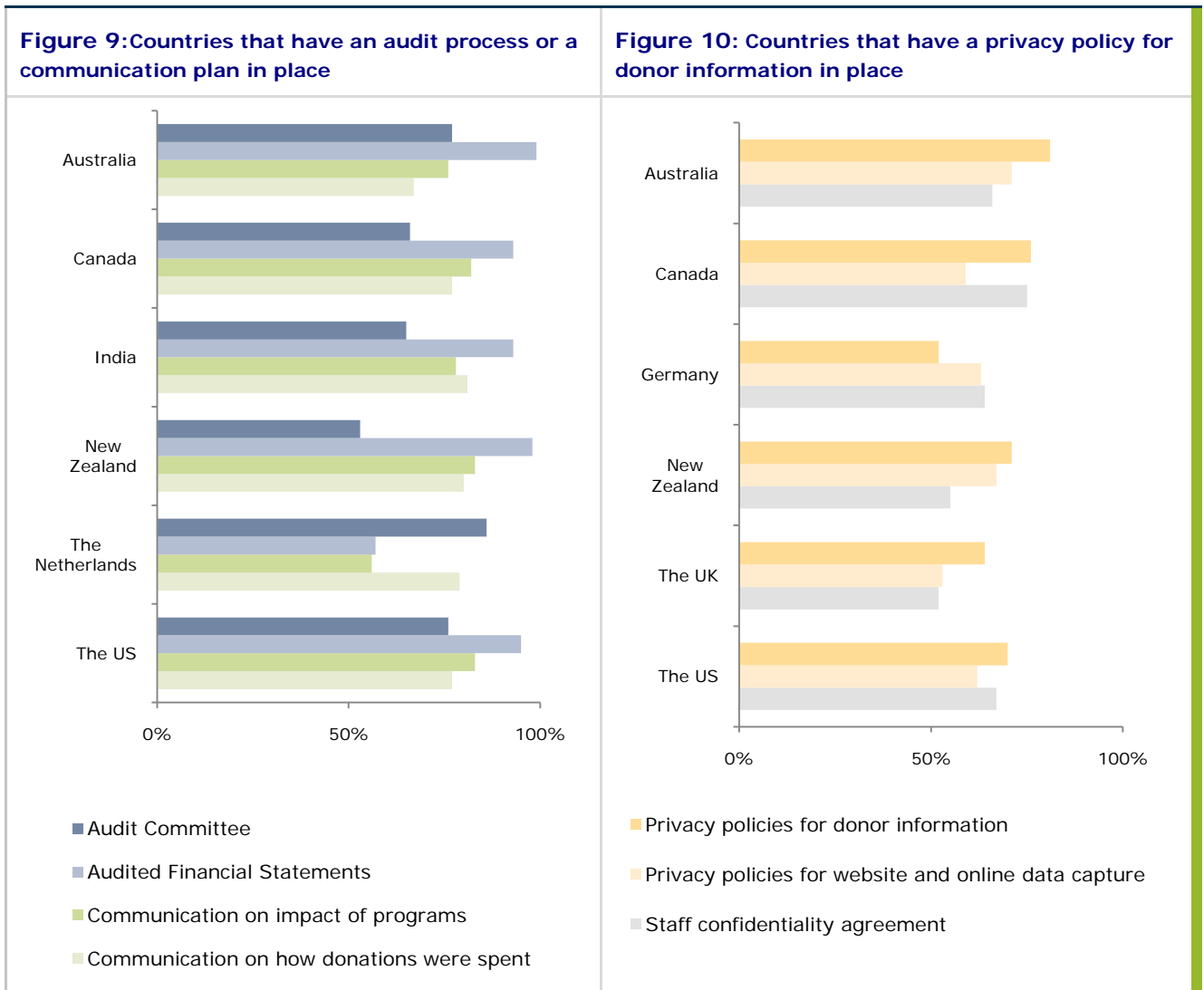
These changes are making non-profits more efficient and helping them attract new donors, board members and participants. In some cases after forming an alliance, non-profits were able to pool their funds and raise a dedicated team for marketing, communications and fundraising, which allowed them further strengthen their funding.

Given the extent to which funding for non-profits was hit by the recession and the growing number of non-profits, experts believe that there will be more mergers, alliances and acquisitions in the years to come.

### Donors concerned on how their money is being spent

In the Blackbaud 2010 survey of non-profits in ten countries, organisations responded to the question on whether they have accountability measures in place that allow donors to verify claims made by them.

The figure below shows the countries where a majority (more than 50%) of the respondents said that they either have an audit process or a communication plan in place. While in countries such as Australia, Canada and the US, apart from having an audit process in place, non-profits also have privacy policies regarding donor information and staff confidentiality.



Source: [Blackbaud – 2010 State of the Non-profit Industry Survey](#)

In future, donor contributions will depend on people’s judgement about the results achieved by philanthropic efforts and large donors will certainly demand greater accountability. Non-profits that fail to meet these expectations will have difficulty in fundraising.

## Competitor Landscape

### PricewaterhouseCoopers

#### Overview

- Globally, PwC caters to the non-profit sector through government/public services.
- The company focuses on education, health care and social welfare sectors of the non-profit industry.

#### Services Provided

- PwC advises international bodies such as the World Bank and the European Commission.
- The company offers consulting services to national government education departments and their agencies on major education policies and programmes.
- It works with state, regional and local government bodies including on organisational restructuring and privatisation.
- It supports frontline delivery of learning services – universities, colleges and schools – particularly through their assurance services division.

#### Thought Leadership

PwC provides high quality insights into the key trends and issues relating to the industry. Some of its publications for the industry include:

- Capita Selecta Charitable and not-for-profit organisations – 2011 Trends
- Growing professionalism in non-profit organisations

#### Global Leadership

- John G. Maxwell is the global leader of PwC's government/public services.

## Deloitte

### Overview

- Deloitte caters to the global non-profit industry through its public sector service line.
- Public sector service line provides services to clients in governments including health and human services, tax and revenue management, defence, law and justice, transportation, security, education, and not-for-profit sectors.

### Thought Leadership

Thought leadership publication is one of the principal means for Deloitte to showcase its capabilities, experience and competencies. Some of the publications for the non-profit sector include:

- Deloitte United States: College Summit
- France Tax Alert (Nonprofits)
- Next Learning, Unwrapped

## KPMG

KPMG does not service the non-profit industry on a global level. A sample of five countries (Australia, Canada, France, the UK and the US) was taken to compare the service capabilities of the organisation with its competitors.

### Overview

- Most of the activity of KPMG network with respect to non-profit organisations is concentrated in the US.
- The company handles more than 1,000 non-profit organisations.
- More than 50 partners are dedicated to handle philanthropic issues and other matters relating to the public sector.

### Overview of select countries

Country	Service line serving non-profit sector	Services offered	Comments
Australia <sup>17</sup>	Not-for-Profit as a distinct service line	<ul style="list-style-type: none"> <li>• Financial modelling and new funding models</li> <li>• Advice on legislative and regulatory compliance</li> <li>• Advice and feedback to the board and audit committee</li> <li>• Business analysis and operational review</li> <li>• Strategic planning</li> <li>• Leadership and management coaching</li> </ul>	KPMG has helped not-for-profits of all sizes to adopt practices which increase their performance and accountability.
Canada <sup>18</sup>	Not-for-Profit under public sector service line	<ul style="list-style-type: none"> <li>• Audits: risk-focused and controls-based</li> <li>• Taxation services</li> <li>• Readiness planning and implementation</li> <li>• Impact analysis</li> <li>• Procurement planning</li> <li>• Tax harmonisation services</li> <li>• Government strategic and operational planning</li> <li>• Intergovernmental programme service rationalisation services</li> </ul>	KPMG is the leading auditor for charitable organisations with a market share of about 35%

<sup>17</sup> <http://www.kpmg.com/au/en/whatwedo/industries/not-for-profit/pages/default.aspx>

<sup>18</sup> <http://www.kpmg.com/ca/en/whatwedo/industries/publicsector/pages/not-for-profit.aspx>

Country	Service line serving non-profit sector	Services offered	Comments
		<ul style="list-style-type: none"> <li>• Strategic IT enablement</li> <li>• Regulatory and compliance</li> <li>• Tax planning</li> </ul>	
The US <sup>19</sup>	Caters to non-profits under the government and the public sector service line	<ul style="list-style-type: none"> <li>• Regulatory and compliance support</li> <li>• Contract/sub-recipient monitoring</li> <li>• Quality assurance/independent verification and validation</li> <li>• Business intelligence</li> <li>• IT governance</li> <li>• Strategic planning</li> <li>• Policy support</li> </ul>	In 2010, KPMG set up a government institute which allows organisations to share knowledge on current and emerging issues, and key topics and trends.

### Thought Leadership

KPMG issues various local and global level publications to provide insights into the key trends and issues related to the industry. Some of the publications are:

- Global Expansion of Higher Education Institutions
- Taking the Pulse – A global study of mergers and acquisitions in Health care

<sup>19</sup> <http://www.kpmg.com/US/en/WhatWeDo/Industries/government-and-public-sector/Pages/default.aspx>

## Ernst & Young

### Overview

- Globally, Ernst & Young caters to the non-profit sector through government and public service line.
- The company's clients for the service line include international institutions, central and regional governments as well as cities, large non-profits and educational entities.
- Philippe Peuch-Lestrade is the global leader for the government and public sector.

### Thought Leadership

Ernst & Young produces provides in-depth industry analysis for the non-profit industry through various thought leadership publications, such as:

- Top 10 risks and opportunities: government and public sector
- Australian higher education
- Survey insights: governmental accounting in Europe

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