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Counsel

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SPECIAL REPORT

Seeing – and Seizing – the Future

BY JOHN M. CASH

INSIDE

Summer 2002

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Though major public universities have realized dramatic gains in private support in recent years, the author's comprehensive study reveals that the best may be yet to come.

Marts & Lundy senior consultant John Cash recently released the results of his comprehensive study of the state of private fund-raising for public higher education. The objective was to identify best practices and trends as a way of helping both emerging and established public university development offices. The study aims to illustrate the special history and circumstances that characterize public university fund-raising efforts and to show how these organizations differ from those of successful private institutions.

Included in the study were: the University of California, Berkeley; the University of California, Los Angeles; the University of Florida; the University of Illinois, Urbana-Champaign; Indiana University; the University of Michigan; the University of Minnesota; the University of North Carolina, Chapel Hill; Ohio State University; Pennsylvania State University; the University of Texas, Austin; Texas A&M University; the University of Utah; the University of Virginia; the University of Washington; and the University of Wisconsin, Madison.

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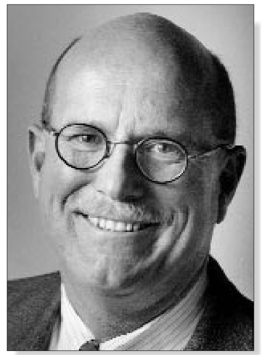
By all measures, the rise in private giving to the nation's prominent public universities was one of the most dramatic philanthropic stories of the 1990s. The 16 universities in this study in 1989 were raising collectively about $950 million a year. By 2000, this figure had grown to $2.5 billion, a 163 percent increase *(see Illustration 1, page 3)*. But behind these impressive statistics are some hard lessons to be learned—lessons that will have a strong bearing on the future, especially with regard to identifying, cultivating, and soliciting support from alumni.

The universities in this study differ in character and in organization, but they share common themes in the history of their development programs. Most saw significant private funding in the 50 years or so following their founding.

The public university never felt a need to treat its alumni differently from the way it treated citizens of the state that provided the bulk of its support through tax dollars.



John Cash

By the early 1960s, most were receiving around 80 percent of their general operating budgets from their states. The one exception was athletic programs, which have always been independently supported through ticket sales and donations.

The early 1980s saw a period of dynamic change in the funding for American higher education—changes that were keenly felt at public universities. The Reagan presidency stressed reduction in public sources of funding for education and social programs while the boom in the economy led to growth in philanthropy across the country. Further steep reductions in state support were experienced during the recession years of the late 1980s and early 1990s.

Except for athletics, public universities neglected individual donors throughout the period of significant state funding. This was especially true with alumni. The public university never felt a need to treat its alumni differently from the way it treated citizens of the state that provided the bulk of its support through tax dollars. This contrasted dramatically with private institutions, where alumni support and intergenerational relationships proved to be central to institutional stability and funding.

Alumni Support of Public Universities

The absence of alumni institutional identity beyond athletics is one of the key factors contributing to the low level of alumni giving at all but a select few of the major American public universities. At most institutions, only a small number of alumni have ever made a donation, and annual gift participation at most schools is below 20 percent.

Since most fund-raising is driven by large gifts, the problem for public institutions is even better illustrated by the comparatively small percentage of total gifts that come from alumni. While this percentage has grown modestly over the past decade, it does not yet reflect the extraordinary overall growth of public university fund-raising programs. It also lags significantly behind the major private institutions. This number—the percentage of total gifts received from alumni—is an important gauge of maturity among public university development programs.

The potential for growth in alumni support is the elemental strength of the public university. Few would disagree that the major private research institutions have historically attracted more students from wealthy families than their counterparts. Indeed, most private schools honor the legacy admission, and development offices have at least some quiet voice in the admissions process provided academic scores and grades meet requirements. But the sheer number of public university alumni should overwhelm the inherent wealth of private university alumni. Collectively, public school alumni should be a tremendous source of financial support at all levels of the donor pyramid.

Over 11 years, the percentage of total gifts received from alumni to the 16 universities in this study averaged just 23.4 percent. These years saw the alumni totals increase from 22 percent of all gifts in 1989 to 28 percent in 2000 *(see Illustration 2)*. Nearly all of the increase was fueled by a small number of schools that had entered or were about to enter their second capital campaign. (The first round of the big public university campaigns began in 1982; their success spawned subsequent campaigns in the 1990s, most in the range of $1 billion-plus.) Thus, as overall giving grew from $950 million to $2.5 billion during this period, it was only modestly fueled by increased alumni support.

This offers a stark contrast to Stanford University and Harvard University, the two leading, private university fund-raising programs. At these institutions, alumni donations averaged between 35 and 40 percent of all gifts during the same period. The range between the best and worst performers among the schools in this study is dramatic. Over 10 years, Michigan averaged nearly 42 percent of its total support from alumni, followed by Virginia with 34.4 percent. North Carolina and Texas A&M averaged more than 33 percent. Berkeley averaged about 31 percent. The public universities that received the smallest amount of money from alumni, however, show a striking difference in their totals. Three Big Ten schools—Wisconsin, Minnesota, and Illinois—received fewer than 17 percent of their total gifts during the period from alumni.

Quick Facts

• The 16 universities in the study in 1989 were raising collectively about $950 million a year. By 2000, this figure had grown to $2.5 billion, a 163 percent increase.

• Over 11 years, the percentage of total gifts received from alumni to the 16 universities in the study averaged just 23.4 percent, compared to leading private university fund-raising programs that averaged as much as 40 percent.

• Corporate and foundation funding continue to be the most important sources of private gifts to the universities in this study, averaging around 50 percent of all private giving, even though individual giving overall accounts for close to 90 percent of philanthropy in the U.S.

• Among the universities in the study, research averages around 30 percent of the funds raised from private sources and constitutes more than half of the money donated from corporations and foundations.

Illustration 1

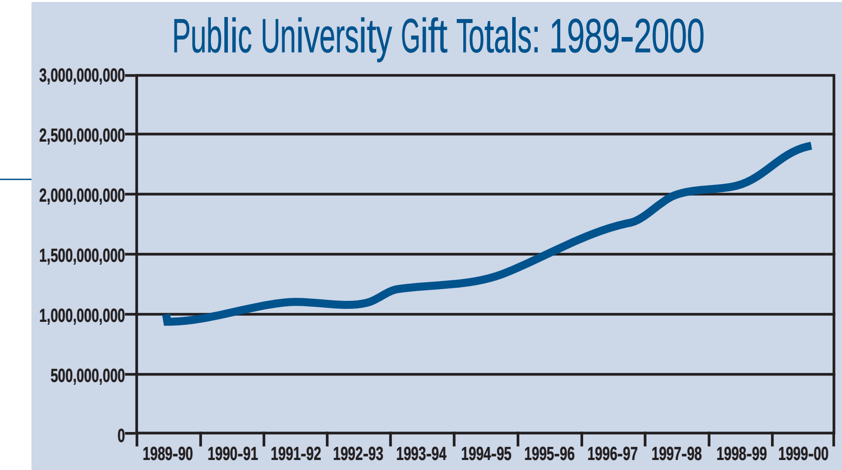


Illustration 2

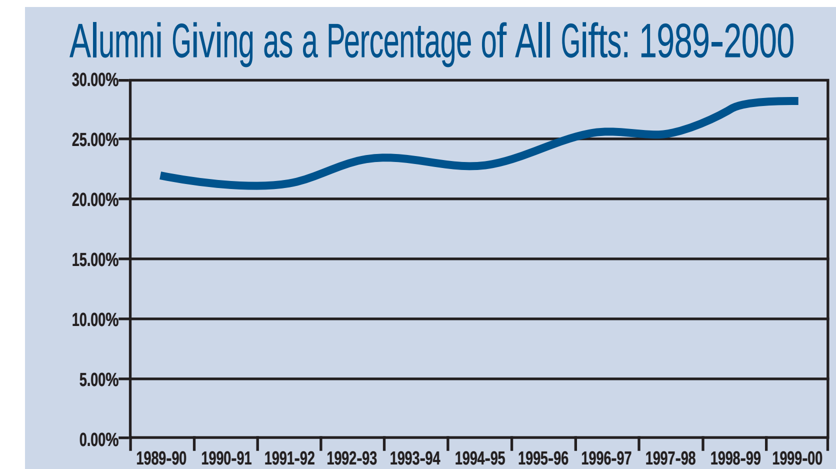
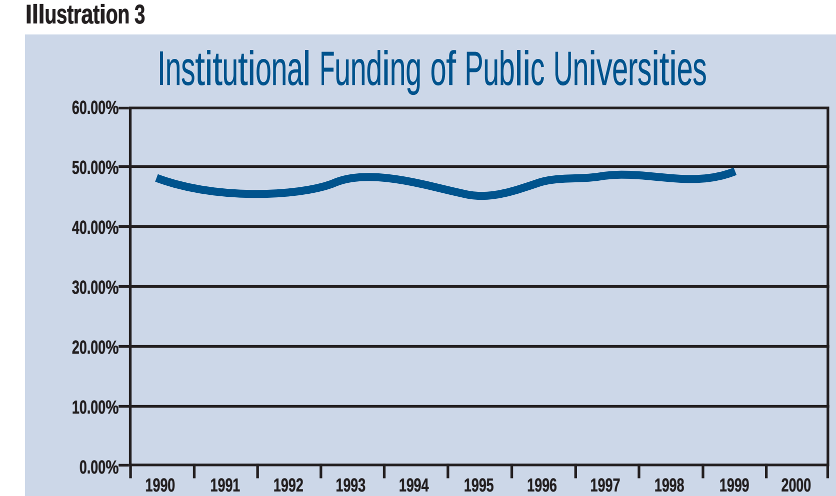


Illustration 3



The University of Washington averaged just 15 percent of its gifts from alumni. UCLA began the decade with only 8 percent but, thanks to significant growth during its campaign, produced a 10-year average of 16.6 percent.

The one major variable that seems to have had a large impact on the growth of alumni support has been the second capital campaign, usually the first truly comprehensive or university-wide capital campaign. Virginia, Berkeley, Penn State, and UCLA have recently completed or are nearing completion of such efforts. Collectively, these institutions showed a marked improvement in the percentage of total gifts coming from alumni over the decade. The individual percentages vary widely, but all demonstrate the point that comprehensive capital campaigns can be excellent vehicles for increasing alumni support.

Institutional and Research Funding

Most major public universities in the United States built their private giving programs on gifts from institutional sources. This has certainly been the case with the universities in this study. Unlike the alumni giving totals, institutional giving begins and ends the decade of the 1990s at around 50 percent of all private giving *(see Illustration 3)*. Indeed, the modest growth in alumni giving appears to have had no real impact on the value of institutional support for public universities. Corporate and foundation funding continue to be the most important sources of private gifts to the campuses in this study.

Support for research also plays a major role in public university fund-raising, and nearly all of this money is received from corporations and private foundations. Among the universities in the study, research averages around 30 percent of the funds raised from private sources and constitutes more than half of the money donated from corporations and foundations. As with institutional giving, research funding has remained relatively constant among the major public universities over the 11 years of this study, and it continues to be a vital element in the structure of public university fund-raising programs.

Public universities face challenges by relying too heavily on giving from institutional sources. Corporate and foundation money tends to fund program rather than the ongoing needs of the campus. In general, institutional donors do not contribute heavily to university endowments, and their support for capital projects is declining. The focus in corporations on return for shareholder value and the focus in private foundations on specific results for dollars invested do little to strengthen the overall university or to replace money that had previously come from public sources.

Dependence on institutional giving is there-

The sheer number of alumni is the elemental strength of the public university and should be a tremendous source of financial support at all levels of the donor pyramid.

For the author's full report—including a look at the historical development and growth of public university fund-raising, organizational and funding models, and the role of athletics, medicine, and hospitals—visit www.martsandlundy.com, click on Community Resources, then go to Marts & Lundy Research and "Private Fund-Raising for Public Universities."

fore problematic as a funding model. Even as foundations and corporations help to establish important and innovative new programs, they rarely continue to fund those programs beyond a short period of time. After seeding these efforts with their grant money, institutional donors expect long-term support to come from individuals or from the university itself. When combining this philosophy with a declining level of overall giving from corporations, the future of development programs that heavily depend on institutional giving is questionable.

For this reason, private universities have successfully grown their development programs by building up gifts from individuals, especially—and critically—from alumni. The contrast between the average of total gifts raised from institutional donors in the 16 schools in this study and Harvard and Stanford is striking. While the public universities received a relatively constant 48 percent of their gift totals from institutional sources during the decade, Harvard and Stanford saw that percentage drop dramatically from 40 percent in 1990 to 25 percent at the end of the decade. This occurred, moreover, as both Harvard and Stanford experienced explosive growth in private giving.

Conclusion

The development enterprise at public universities is in the midst of fundamental change. Over the past 15 years, public institutions have gone from state-supported to state-assisted. One administrator predicts that the next 15 years will see a transition from state-assisted to state-tolerated. The change is basic, dramatic, and irreversible.

The future of public higher education in this country is tied in no small part to the ability of these institutions to grow new sources of revenue. Continued growth in private giving will be an important way to keep student fees at a moderate level so that the public character of state universities is not compromised. Private funds also play a critical role in providing the margin or quality that helps retain top faculty at public institutions.

The establishment of full-scale, comprehensive development programs will occur at all levels of public higher education. The sheer number of alumni and the position of these institutions in their communities ensure that they have the potential to create and foster growing fund-raising programs. The campuses that delay will pay a price in the long term.

The most successful programs emulate one key aspect of private university development efforts. They recognize that private giving has institutional value to the degree that it allows the university to sustain its basic mission. This translates into money for endowment, budget relief, and capital facilities. The race for the highest fund-raising totals, that has so obsessed many leaders in public higher education, has not always been in synch with the mission of building a private base to fund infrastructure. As a result, even at some of the top development programs at public institutions, the pressure on student fees continues to rise, endowments grow through investment more than new gifts, and funding for development operations goes up and down with the gift totals.

The principal conclusion of this study is that public university development resources need to be more carefully focused on identifying, cultivating, and soliciting support from alumni. Those institutions that have shifted their focus in this direction are leading the pack in raising money that sustains institutional infrastructure. Individual giving overall accounts for close to 90 percent of philanthropy in the U.S. Alumni are natural sources of this support for colleges and universities. Until public institutions become more effective at addressing this constituency, even though their gift totals may be large these schools will not realize the true value of private philanthropy. **M&L**

John Cash joined Marts & Lundy last year as a senior consultant following more than two decades of development work in higher education, most recently with the University of California, Berkeley, his alma mater. He also holds advanced degrees from the University of Chicago.

Nonprofits, Brand and the Internet

By Darrow G. Zeidenstein

THIS IS THE SECOND IN A TWO-PART SERIES ON "DEFINING BRAND FOR NONPROFITS." FOR PART ONE, SEE THE SPRING 2002 ISSUE OF COUNSEL OR LOG ONTO WWW.MARTSANDLUNDY.COM AND CLICK ON COMMUNITY RESOURCES.

The first of this two-part series articulated a working concept of nonprofit brands as the special promises of value that a nonprofit organization makes and keeps to its community. This concept stresses the burden placed upon an organization to understand and deliver on the expectations of the organization's community—a tall but important order. In return, the nonprofit's community of stakeholders gives back loyalty to and support for the organization's mission and vision. The value or strength of a nonprofit's brand reflects the quality of relationship between the organization and its constituents.

Broadening and enhancing this quality of relationship should be what the Internet is all about for nonprofit organizations. Unfortunately, the late 1990s hubbub and myopic focus on e-commerce transactionalism overshadowed and obscured this simple truth. The subsequent dot-com crash further put a pall on what should be a vigorous and staged implementation of technology to help nonprofits perform their missions and strengthen their brands.

It would be an equally grave mistake now, however, to reject the power of Internet technologies to extend and deepen the impact of most nonprofits. In fact, extending and deepening impact should drive an organization's Internet strategy with the goal of supporting organizational mission and vision. There are many ways for nonprofits to leverage cyberspace for achieving success. Hindsight over the last few years shows there is no one-way street to executing an effective Internet strategy.

That said, the lack of a single "best way" to use Internet technologies doesn't mean there are indefinite strategies of equal value. Nonprofits will reject many options solely because of cost and/or reliability issues. For example, most nonprofits cannot afford an enterprise-wide customer relationship management (CRM) system used by many large for-profit corporations to connect all customer communications channels (phone center, direct marketing, Web site, e-mail, etc.) to a centralized, highly customized database. But well before these issues come into play, organizational leadership should consider how an Internet strategy best enables an organization to build the quality of relationship necessary to sustain mission and realize vision.

Darrow Zeidenstein

Same Domain, Different Promises

A hypothetical example illustrates this important point. The table below describes two organizations with their respective brand promises. Suppose that organizations A and B are involved in the same domain (environment, healthcare, social advocacy, or whatever), but each has very different promises to uphold. These promises will place severe constraints on the kind of Internet strategy suitable for and expected by that organization's constituents.

	Organizaion A	Organization B
Nature of stakeholder relationships	"Mile-wide" informal network of annual members	"Mile-deep" community of invested volunteers and donors
Brand Promise to Constituents	Dedicated to channeling dollars to solutions that work	Dedicated to organizing concerned citizens to speak as one politically powerful voice
Considerations on Internet Strategy	Use highly cost-effective, scalable technology to handle heavy transaction processing	Use various technologies to build community member interaction and loyalty around content

Organization A, as a low-overhead, grassroots fund-raising organization, would have a difficult time justifying a high-overhead, community-enhancing Internet strategy that Organization B might use. This might hold true even if there are Internet-based solutions for online community building that do not require large investments of personnel and money to maintain; the appearance of an elaborate web presence may run counter to the expectations of constituents. On the other hand, Organization B would likely lose constituents if it were to communicate by asking only for money.

The table illustrates the point that the nature and scale of promises made and kept to constituents remain front and center for nonprofits as they consider developing and executing an Internet strategy. In particular, nonprofit leadership should ask and answer two "brand" questions before considering and selecting specific technology solutions:

1. What are the relationship qualities that our constituents (or certain strategic segments of our

Many of our elite institutions have virtual campuses that are disorienting, chaotic, and vastly unlike the pristine grounds of their physical campuses.

constituent community) experience with and expect from us?

2. How can we use technology's scalability to enrich our constituent relationships to instill a deeper sense of trust and loyalty in us?

Meeting High Expectations

With respect to the first question on quality of relationship, organizations all too often permit substandard experiences through their Web sites. Consider prestigious colleges or universities that spends hundreds of millions of dollars on faculty, facilities, and programs to create a special experience for each community member. They spend millions more on landscaping and maintaining the grounds to create an inviting setting for learning and scholarship. Yet many of these same elite institutions have virtual campuses that are disorienting, chaotic, and vastly unlike the pristine grounds of their physical campuses.

As more people move on-line, an organization's constituency increasingly will come to expect a comparable quality experience from institutional Web sites and digital interchanges. Failure to meet these expectations will most assuredly take a toll on the organization's brand.

As for the second question—on building trust and loyalty—the key to success is in using Internet technologies to aid in moving the underlying stakeholder relationship forward. A good relationship doesn't stand still; like an evolving story, it starts with a point of acquaintance and progresses to building deep bonds of trust. Internet technologies can be a big or small part of this story building, depending on the scope of mission, stakeholder expectations, and the organization's internal capacity to use technologies as part of its broader relationship management practices. The bottom line: The thousands of dollars spent on a couple of beautiful Web pages will amount to little in brand equity if the total site does not play a key role in nurturing relationships.

Although often overlooked, brand is critically important for nonprofit organizations. Brand is the glue that holds together the group's leaders, staff, and constituents, keeping everyone focused and moving forward with purpose toward mission fulfillment. When strategically deployed, Internet technology can be one of today's most effective tools for strengthening brand. Nonprofit organizations that step back, take stock of their brand, and ask the right questions will be better poised to make cyberspace work to their advantage. M&L

Darrow Zeidenstein is a senior consultant with Marts & Lundy. A graduate of the University of Illinois at Champaign-Urbana and the University of Texas at Austin, he joined the firm in 2001.

Senior Consultants Added. . .

(continued from page 8)

ship Association) conferences.

A graduate of the University of Oregon, he also holds a master's degree in music from Ohio State University. Terry is fluent in both Spanish and German, and is an active cellist with Minneapolis-St. Paul area orchestras and chamber music groups. He lives in Eagan, Minn.

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Scott R. Lange also recently joined Marts & Lundy, splitting his time between the ES Solutions team, major gift consultation, and Gifted Memory prospect management software, a standalone prospect management system he developed to run on both PCs and Macs.

He brings more than two decades of experience to his new position, most recently as founder and president of Institutional Memory, Inc., provider of the Gifted Memory software system. In that role he has worked with dozens of clients across the nonprofit spectrum, helping them build productive relationships with their constituents.

Scott previously served for 13 years as director of development at Case Western Reserve School of Law. He helped quadruple the school's annual fund revenue during a $15 million law school campaign. He was also a member of the initial team for the university's $250 million effort.

Before his work at Case Western, he served as director of major gifts at the Cleveland Clinic Foundation. He also has worked as director of development for the University of Missouri-Columbia and Roanoke College and as director of alumni relations at Blackburn College in Carlinville, Ill.

Active in the profession, Scott has served as chair of the CASE (Council for the Advancement and Support of Education) Conference on Annual Giving and has been a member of the CASE faculty. In recent years he has been an active speaker at CASE conferences. He also co-founded two NSFRE chapters (National Society of Fund Raising Executives, now called Association of Fundraising Professionals), one in Virginia, the other in Missouri.

Scott is a graduate of Gettysburg College, with a bachelor's degree in political science. He lives in Chagrin Falls, Ohio. M&L

Seeing the Big Picture in Gift Planning

As a consultant and lawyer, Ilisa Hurowitz knows that the abundance of jokes about the two much maligned professions adds up to a never-ending litany of stereotypes, most of which are interchangeable. To wit:

A prospective client comes in to see a well-known consultant/lawyer (choose one). "Can you tell me how much you charge?" the client asks. "Of course," the consultant/lawyer replies. "I charge $200 to answer three questions." "That's a bit steep, isn't it?" "Yes it is," the consultant/lawyer agrees. "And what's your third question."

It's safe to say that Ilisa belies this stereotype and virtually all others making the rounds about consultants and lawyers. She's generous with her time, driven by her desire to do good, motivated by the needs of her clients—and consistently willing to set aside short-term solutions to deal with the larger and longer reaching issues.

Take planned giving as an example of the latter. It's her area of specialized expertise as a senior consultant with Marts & Lundy and head of the firm's newly formed planned giving group. Actually, she prefers the term "gift planning," and her reason for the shift in language says a lot about her understanding of the fuller philanthropic enterprise.

"The titles that once were prominent in the field," she notes, "such as director of estate planning or director of deferred giving, suggested a narrow focus and attitude. Those titles are less common now, but the old mind-set hasn't changed in many non-profit organizations where the prevailing way of thinking suggests that planned giving should focus exclusively on *deferred* giving. Many continue to set planned giving off as a silo and treat it as an afterthought in the context of the institution's broader development goals." Ilisa believes that "gift planning" conveys a more proactive approach to fund-raising, one that helps both major gifts and planned giving prospects to look broadly at their philanthropic potential and to consider ways to maximize their giving, both now and in the future.

Ilisa takes on her leadership role within Marts & Lundy's planned giving group confident that she and her colleagues offer value to the full spectrum of not-for-profits. "There are excellent individual consultants and firms that specialize in planned giving," she says, "but Marts & Lundy has a distinctive approach. Backed by the depth and breadth of our firm's experience and expertise, we're committed to integrating client service. We help clients to position planned giving and other specialized development functions strategically in the broad context of an organization's short and long-term plans."

Senior consultant Ilisa Hurowitz has served Marts & Lundy clients since 2000.

Ilisa already has brought that sense of integration to the diverse client base she has served in her two-and-a-half years with the firm. In addition to general and planned giving consulting with major public and private universities, she also has worked with various other nonprofit groups. These include the Massachusetts Society for the Prevention of Cruelty to Animals and the World Monuments Fund in New York City, an organization that preserves and conserves archaeologically and architecturally distinctive sites around the globe.

She has also enjoyed serving several start-up clients, including a foundation supporting the Holy Spirit University in war-torn Lebanon. Another, the Constellation Performing Art and Film Center, based in her hometown of Cambridge, Mass., seeks to create four world-class performing halls to serve small and middle-sized arts groups.

"Many nonprofit organizations continue to set planned giving off as a silo and treat it as an afterthought in the context of the institution's broader development goals."

Ilisa and her husband, Nick Alexander, are working with their own start-up these days—22-month-old Rachel Lee Alexander, their first child. "It's been an absolutely amazing experience," she reports. "Apart from the pure miracle of life, which is huge, right there before our eyes, we've been blessed to rediscover life through the eyes of a child. What a wonderful adventure."

Between work and baby, Ilisa finds less time for other long-time interests and hobbies. But she knows that her love for the arts, theatre, ballet, movies, painting—and even the Chicago Bears—will be nurtured again in due time, likely with her daughter by her side. Like Ilisa's clients, Rachel Lee will learn fully that her mom, as a consultant, lawyer, and consummate professional, clearly transcends the stereotypes. M&L

To learn more about Ilisa Hurowitz and other Marts & Lundy staff, log on to www.martsandlundy.com and go to "Professional Staff."

Senior Consultants Added to ES Solutions Team

Marts & Lundy's growing ES Solutions team—which oversees the firm's prospect screening services—has announced the addition of two new senior consultants, Terrence M. Handler of Eagan, Minn., and Scott R. Lange of Chagrin Falls, Ohio.

Terrence M. Handler has joined Marts & Lundy as a senior consultant with the firm's ES Solutions team, bringing more than 20 years of development research experience to his work with database screening and consulting services.

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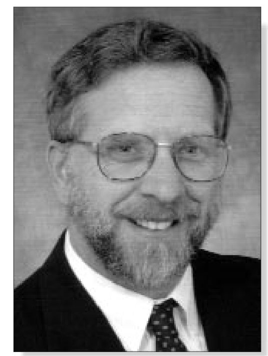
Terry previously worked as principal consultant and account manager with Computer Sciences Corporation (CSC), responsible for sales and delivery of systems consulting in the commercial and public sector. While at CSC, Terry led teams for intranet planning, system replacement, and Web-based system development.

Prior to that he served for 12 years as a systems consultant with Bentz, Whaley, Flessner. For three years he worked with the Columbus Symphony Orchestra, overseeing donor research, prospect management, and fund-raising systems.



Terry Handler

Scott Lange

Terry has chaired the Council for the Advancement and Support of Education's (CASE) "E-Fundraising" conference. He also has been a presenter at several CASE, AFP (Association of Fundraising Professionals), APRA (Association of Professional Researchers for Advancement), and CSA (Christian Steward-

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Fund-raising fundamentals don't change, but today the effective application of those fundamentals is specialized, diverse, and often complex. Marts & Lundy combines decades of experience with new ideas to meet these challenges and serve the wide spectrum of nonprofit organizations.

Marts & Lundy has top specialists in areas such as capital campaign and prospect research counseling, strategic planning, feasibility studies, computer assisted prospect screening, direct mail constituent surveys, planned giving, development office operations, training, fund-raising writing, and communications plans.

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