

Coaching material about fundraising, managing risk, sustainability strategies

- Coaching materials about fundraising

COACHING MATERIALS FOR SOCIAL ENTREPRENEURS

Coaching materials about fundraising

FUNDRAISING - KEY CONCEPTS AND TERMS

The term **Fundraising** or **Fund-raising** (hereinafter also referred as FR) is usually associated mainly with the non-profit sector. It does not have a clear, generally valid definition. The term fundraising comes from English (the word stem is “fund” – reserve or capital, and “to raise” – increase or take measures). The term is used in many languages and is usually not translated, even though its designation is not completely unified.

Fundraising is very often referred to as marketing non-profit organizations.

Many authors of prestigious publications, as well as a legal and a natural person, differ in their opinion. Some state that it is purely a source of raising funds, while others look at it in greater depth, seeing it more as a modern successor to philanthropy, through which the donor integrates into society and gives the donor a good feeling.

Fundraising is designated by Šobáňová (2010), who defines it as a source of financing and other means and contributions from private sources necessary for the operation of a company. The recipient of the contributions (funds) is usually a non-profit organization, a contributory organization such as a school, hospital, social care facility, or a municipality, region or even a business legal entity.¹

From another point of view, Fundraising is defined, for example, by Houšek, who states that “Fundraising is not just about raising funds for survival... it is about gaining trust and the related stability and sustainability of the organization. The ability to reach out and bring new members, supporters and friends to the organization plays an important role.”²

A successful FR campaign should be implemented through quality development and systematic fundraising strategy, which in main points resembles a strategic plan. The only differences are the methods used and also the fact that in your thinking you focus mainly on financial issues. The preparation and implementation of a fundraising strategy is also a learning process that will bring new experiences and improve your fundraising skills. A fundraising strategy will help define real needs and orient yourself in the environment in which you operate. Furthermore, through this strategy, it is possible to align your strengths with the opportunities around you and choose the optimal methods for achieving the set goals.

Last but not least, the FR strategy will help you create a well-targeted advertising campaign and communication strategy. It can reveal an environment in which you manage donor money in a responsible and efficient way.³

TYPES OF FUNDRAISING

Non-profit organisations frequently face the problem of gaining funding. Fundraising is a potential source of financing for non-profit organisations.

Funding of non-profit organisations should not depend on one source of finance (e.g., subsidies) as their further development and sustainability would come under threat. Šedivý and Medlíková

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(2009) point out that the existence of an organisation dependent on only one source of funding can be endangered if the only application for a grant is rejected. Hence, multiple sources of funding are necessary, and fundraising offers such a possibility.⁴

In today's business environment, financial management influences all segments of corporate activity, for both profit-oriented firms and non-profit firms. Through fundraising, resource allocation, and financial performance monitoring, financial management provides a vital function to the operations of any organization. Furthermore, finance provides stockholders and other interested parties a tool with which to assess management activities. Social enterprises seek actively financial opportunities through which it will be able to carry out its activities. As the corporate environment changes, suitable forms of fundraising for a given type of business are also emerging. As the corporate environment changes, change the appropriate forms of fundraising for a given business. What is good for one business may not be the right choice for another.

Fundraising can be divided according to several criteria. The basic breakdown is based on the nature of the benefit obtained. These are mainly:

- Financial performance,
- material performance,
- provision of the service.

Furthermore, it is possible to divide Fundraising according to the donors themselves into small donors or significant donors.

Fundraising is also divided on the basis of the approach method used.⁵

FUNDRAISING WITH INDIVIDUALS targeted address	direct mail (in the form of distribution), direct dialogue (in the form of direct address)
ANONYMOUS WIDE ADDRESS - unaddressed form FR	Internet, social networks (currently the most used Facebook), inserting, online FR crowdfunding campaigns (hereinafter also referred as CF)
COMBINATION	Community FR, internet and social networks, online FR / CF

TARGETED ADDRESS – ADDRESS FORM OF FUNDRAISING

If there is a targeted approach, the clear procedure is defined. Firstly, it is necessary to get in touch with a potential donor, then to address them appropriately, to attract and inspire them for the cause. Ideally, the contact becomes a donor and then the relationship maintenance phase begins.

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ANONYMOUS MASSIVE AND WIDE ADDRESS

If the internet is used as a distribution channel, we are talking about so-called **online fundraising**. The great advantages of online fundraising are minimal entry costs, speed and measurability of the reaction, as well as massive addresses.



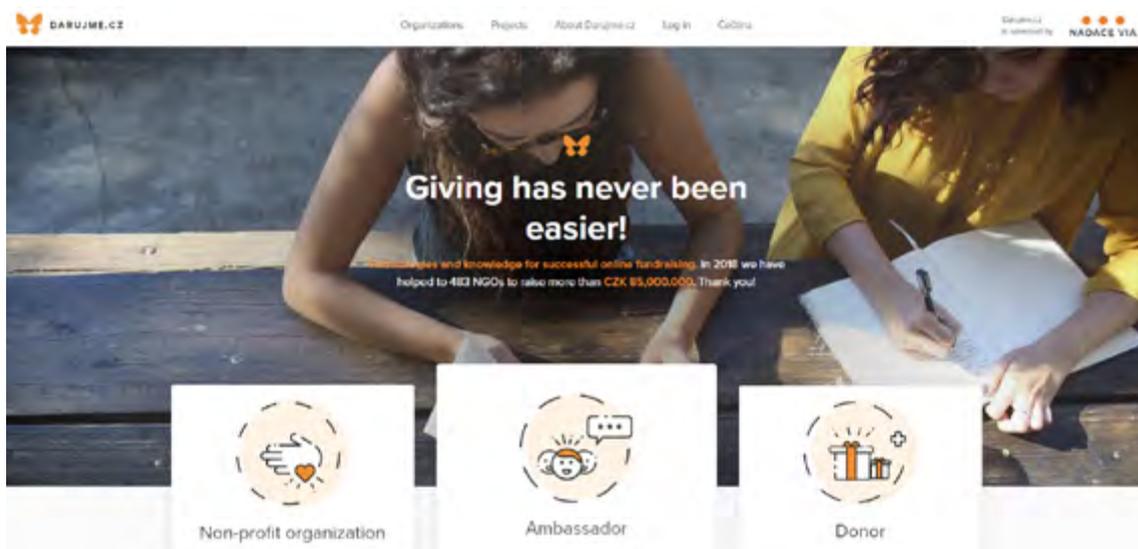
Banner advertising campaign

This channel is very suitable for social enterprises, frequently used as advertisements published on their own or other websites, or in the newsletter. In most cases, advertisements are graphically processed into a banner. The banner is the digital equivalent of the printed form. A significant advantage is the measurability of interest as well as rapid response. If the banner attracts a potential donor, then it is possible to immediately go to the website, where the details are usually given.

It's a form of online advertising through banners. Donation pages are also commonly used to foster charitable giving, e.g. Darujme.cz. Darujme.cz is the largest platform for online giving, which has been promoting philanthropy and community life in the Czech Republic since 1997.

These platforms provide a safe space for organizations, institutions, cities, municipalities and regions to apply for a donation and maintain a great relationship with their donors.

Darujme.cz has been helping for more than 10 years, for example in 2019, CZK 128 million went through this site for charitable purposes.



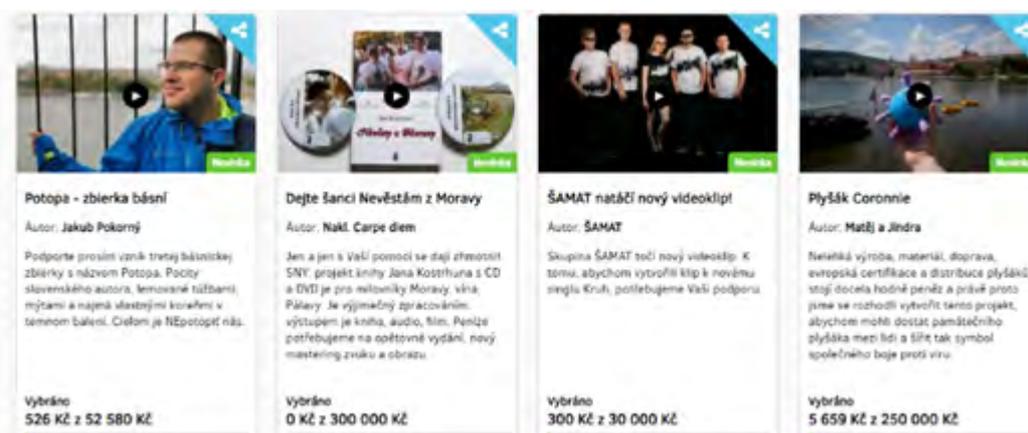
Homepage of donation websites - <https://www.darujme.cz/>

The most popular platforms for FR are Facebook, YouTube, Twitter, LinkedIn. The viral nature of social networks means that strong social campaigns can spread more widely, and penetrate more markets.

Crowdfunding is the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet. Crowdfunding is a form of crowdsourcing and alternative finance. It is actually something that could be described by the word “collection”, with the difference that in this case it pays “something for something”. For a financial contribution, the donor receives a reward or, for example, a share in the company - it depends on the type of crowdfunding. Project creators choose to use crowdfunding websites. A crowdfunding website is an online marketplace where users – who we call project creators – can post ideas for projects (art projects, businesses, bands, classroom exercises, etc.) and other users – donors – can contribute small amounts of money toward funding those projects. By aggregating large numbers of small-amount contributions, these sites enable project creators to raise funding for a wide variety of projects. The two most popular crowdfunding platforms are Kickstarter and Indiegogo. Fondomat was first online crowdfunding platform founded in 2011 in the Czech Republic. In the following years, about a dozen other websites tried to break through, but the greatest success was recorded by the HitHit.cz and Startovač.cz portals. In addition to their own promotion on social networks, the portals and their operators also advise the authors of individual projects on the presentation. Another added value is the provision of a secure payment gateway through which contributors send money. And through which they may be refunded if they fail to collect the entire target amount.⁶

Raising funds successfully is crucial for a crowdfunding campaign. To make a campaign successful, it is important to publicize and promote it on a large scale over social media. Anyone who wants to succeed in raising funds on crowdfunding sites must develop their story, as “people on crowdfunding sites like HitHit or Starter want to know how you turned your idea into a reality.

Civic crowdfunding, subcategory of crowdfunding, through which ‘citizens, often in collaboration with government, propose, fund and deliver projects that aim to provide a community service or deliver public value through a local-area-improvement project. Typically, project ideas are sourced from the crowd and placed on Internet-based platforms, where potential funders are able to search and make financial contributions to projects that resonate with their areas of interest or values. Together, these actions represent a new model of community involvement, allowing citizens to take an active role in the physical improvement of neighbourhoods.



Homepage of crowdfunding website - <https://www.hit-hit.com/cs/search>

For the purposes of this publication, we also present the following breakdown:⁷

INDIVIDUAL FUNDRAISING	Gift, collection, lottery, volunteering, charity auction, will, membership fees
CORPORATE FUNDRAISING	Gift, sponsorship (advertising, promotion), corporate volunteering, internal charity auction among employees, loan of property or employee, discounts on the purchase of goods or services, payroll giving, matching, shared marketing
FOUNDATION FOUNDATION FUNDS PUBLIC ADMINISTRATION BODIES EU FUNDS	Endowment contribution, grant, subsidy (usually it is funds from public budgets)
INTERNAL FUNDRAISING	Sale of products, sale of services, club fees, property income

The list of types and classification of Fundraising is not exhaustive, it is still open and arbitrarily combinable. The appropriate form depends on the context and environment in which it will be used. Each social enterprise may prefer a different form of FR.

At the end of this chapter, we present the advantages and disadvantages of the most commonly used FR channels.⁸

TYPES OF FUNDRAISING	ADVANTAGES	DISADVANTAGES
GRANT	<ul style="list-style-type: none"> • Great profit from relatively small effort • Finance for unattractive activities • There is no need to prove history and successes 	<ul style="list-style-type: none"> • Risk of funding outages • Screwing activities • Inflexible drawing of funds • Tied resources
INDIVIDUAL NON-ANONYMOUS	<ul style="list-style-type: none"> • Long-term income assurance • Building relationships • Moral support • Coherence with PR, there is pressure on its quality 	<ul style="list-style-type: none"> • Financial complexity • Big need of time • Sufficient know-how • Difficult to finance non-attractive activities • Self-censorship
INDIVIDUAL ANONYMOUS	<ul style="list-style-type: none"> • Large amounts in a relatively short time • Donor SMS 	<ul style="list-style-type: none"> • You are not building a relationship • You don't know your donors • One-off support • Administrative complexity
CORPORATE	<ul style="list-style-type: none"> • Obtaining large sums from long-term cooperation • Building relationships • Not just financial benefits 	<ul style="list-style-type: none"> • Risk of loss of large donors • Ethical dilemmas • Great time consuming

Multiple studies have showed that there is no right mix of financing suitable for all social enterprises (Burkett, 2010). What is required is allowing the individual enterprise to pursue the **combination of instruments best suitable for their particular business-model, type of enterprise and development stage**. Work is also needed on the demand side to ensure that social enterprises are investment ready.

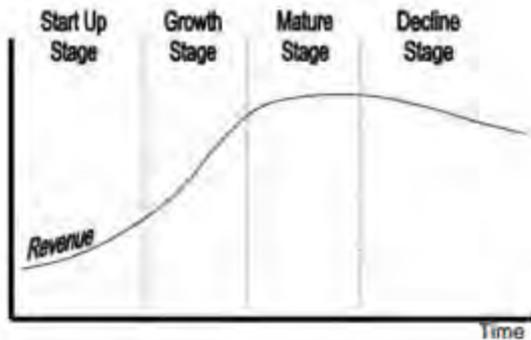
According to Ingrid Burkett (2010), social enterprises need:

- The right type of capital (grant, loan, equity, etc.)
- At the right purpose (suitable for the lifecycle phase where the social enterprise currently is)
- For the right purpose (e.g. not keeping a bad business afloat through donations)
- For the right impact (ensuring that the capital provided is the most suitable for promoting the desired social and/or financial impact)
- For the right returns (ensuring that the returns are not so high that they choke the ability of the enterprise to generate social impact, and not so low that they do not instil incentives)

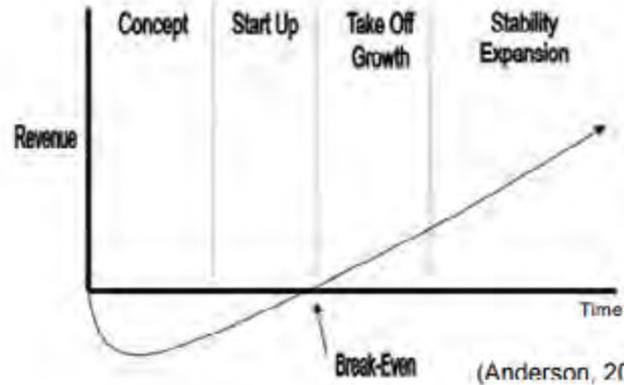
THE LIFECYCLE PHASES OF SOCIAL ENTERPRISE

Social enterprises during their existence pass through the phases of their life cycle. Every phase is among others characterized by different availability of financial sources and this fact significantly influence financial structure of the company.

Typical Depictions of the Lifecycle of Social Enterprise



(Morris, 2007)



(Anderson, 2009)

1. START UP PHASE

The start-up phase is mentioned by a couple of studies to be the phase in which the unmet demand for external finance is highest.

There is a need for start-up and seed capital (opportunities to develop beyond a grant culture from the start).

Seed capital is the money raised to begin developing an idea for a business or a new product. This funding generally covers only the costs of creating a proposal. After securing seed financing, startups may approach venture capitalists to obtain additional financing.⁹

Start Up Phase	Challenge	Financial Source
	Analysis and understanding of social problems to solve	Donations (Individuals Foundation, municipality)
	Development of an innovative solution (product or service or combination)	Crowdfunding
	Clear definition of target segment and pilot launch	4 Fs (founder, friends, family and fools)
	Growing commitment of entrepreneur and team formation	Ideas Competitions

2. DEVELOPMENT PHASE

Social entrepreneurs expand, develop and innovate. The key needs are importance of working capital, linking capacity and capital and transparent and real documentation of costs and impacts. This phase is characterized by a time of excitement, change and, sometimes, risk and instability.

Fixed Asset Capital needed to purchase the necessary equipment and tools to undertake the development the work of the enterprise. Some form of debt capital is most appropriate.

Working Capital, also known as net working capital (NWC), is the difference between a company's current assets, such as cash, accounts receivable (customers' unpaid bills) and inventories of raw materials and finished goods, and its current liabilities, such as accounts payable.¹⁰

Growth and Development Capital (also called expansion capital and growth equity) is a type of private equity investment, usually a minority investment, in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business. This is a particularly difficult period for social enterprises to finance.

Development Phase	Challenge	Financial Source
	Validation and perfection of proposed solution	Venture Philanthropy
	Full commitment of entrepreneur and core team	Impact Angels
	Stronger understanding of the theory of change (how impact happens)	Impact awards
	Balancing social and financial objectives	
	Improvement of economic sustainability (strengthening business model)	

3. GROWTH PHASE

The business is settles down, consolidates and establishes itself. More and more systems and procedures are put into place and, inevitably, the business becomes more conservative and more bureaucratic. If the enterprise stagnates, the social entrepreneur needs to show vision and creativity in order to move the enterprise on. Sometimes, at this stage, there is a crisis due to financial problems, market failure, new legislation, managerial incompetence or any one of a hundred different causes. This is when the social entrepreneur needs to be flexible, innovative, willing to change, able to look to the future and plan ahead.¹¹

There is a need for **Debt and Equity capital** in different forms and/or **Growth capital**.

Growth capital (also called expansion capital and growth equity) is a type of private equity investment, usually a minority investment, in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business.¹²

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Growth	Challenge	Financial Source
	Codification of key processes and development of systems and controls Development of key partnerships Defining growth model (organic, replication, network, movement) and process Implementation of growth plan Managing growth, building the support organization and processes	Social Impact Bonds Equity Impact Investing

4. MATURITY PHASE

Supporting the development of financial sustainability by using the Sustainability and Consolidation Capital. Capital for long-term sustainability and asset development.

Maturity Phase	Challenge	Financial Source
	Adoption of the social innovation through market offers, social sector provision or public policy (embedding of the social innovation) Promotion of changes in behaviour of society's members that prevent, reduce or cancel the social problem (evangelism)	Public commissioning Strategic Partnership Traditional Debt / Bonds

Social enterprises should have access to specific financial resources, not just financial ones. In addition to financial support, it is very important to create the background for the sustainability of social enterprises and their growth.