Business models working group: Webinar summary

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The **Irregular Giving** Project

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Business models working group: webinar summary

Notes from a group call held on 27th August 2020.

Attending:

Thanks to everyone for attending and sharing so openly and basing comments on well-informed experience and knowledge of the sector.

- Tom Duggan (Plan International Australia)
- Caroline Forbes (The Fred Hollows Foundation NZ)
- Emma Frapwell (The Fred Hollows Foundation NZ)
- Justine Lewis (The Starlight Foundation)
- Ally Murray (The Wilderness Society)
- Karina Rottinger (Public Outreach)
- Damon Woolley (MSF)

Notes are a summary of the conversation. Questions / actions for further research are identified in bold type in the text.

1. Action summary

1. Is there any value in researching in-house models from Australia and other markets to identify common success factors and failure points?
2. There is a need to develop business model plans for submission to charities
3. Are there larger, more sophisticated agencies in other markets who might be invited to Australia to perform a wider range, or deliver a higher quality of services? Is there benefit to researching this?
4. Is there value in reviewing other markets to assess other options for F2F supply and whether they might be applicable to Australia and NZ?
5. Can we investigate ways that charities could provide support for a retention based trailing fee model without exposing themselves to excessive financial risk?
6. Can we investigate opportunities to broaden the scope of F2F and to find value in the current or broader scope to improve financial outcomes for charities and agencies?
7. The discussion did not address specifics of the market in NZ. Is there a need for a specific discussion focussed on the NZ market?

2. Key questions and answers

1. Why do we have a mono-culture business model which seems to require the use of sub-contractors?

- The shift from independent contractors to all paid employment encouraged this change between 2016 and 2018.
- Charities and agencies looked to share the financial risk that used to be held by the IC fundraisers.
- Sub-contractors provided a channel for the risk to be outsourced to some extent.
- Sub-contractors that previously engaged ICs now engaged employees and began to compete for fundraisers on a financial basis with agencies that previously were the only direct employment providers, this squeezed the market share for employment-based agencies.
- Larger agencies found that sub-contractors were no longer locked in to their "systems" as solutions like EverGiving made a high overhead "back end" less necessary.
- Sub-contractors are incredibly effective at competing for fundraisers on a financial basis, making competition from "direct" agencies and in-house teams less effective.
- There is a correlation and probably some cause between decreasing retention and the switch from commission to wage based fundraising.
- The NZ market has not seen as much of a shift as the IC model is still permitted and the split between larger IC based agencies and direct employment agencies is still in place.

2. Why has in-house been generally unsuccessful as a widely used, large scale model for F2F in Australia?
3. Has in-house worked elsewhere and if so, can we learn from other markets?
    - What is the purpose of in-house F2F? Should it try to emulate an agency or does it deliver value in ways that aren't comparable with agency F2F?
    - Trying to replicate an agency in-house is difficult due to different cost structures and more bureaucratic employment requirements (noting that enterprise agreements can be varied however to mitigate this)
    - Labour costs in Australia are significantly higher than other markets - increasing the financial risk to charities of in-house F2F.
    - Successful in-house operations (TWS / UNHCR) share the ability to engage highly motivated fundraisers with a deep personal connection to their causes. This is harder to replicate for other charities.
    - Agencies can out-compete with in-house on conventional financial KPIs because they are either more efficient, ruthless or simply non-compliant with labour and other regulations that charities cannot avoid.
    - Fundraisers receive better terms from charities than the NES (or Miscellaneous Award) offered by agencies – this is not a negative as fundraisers deserve good conditions.
    - Plan's in-house team was closed in large part because the cost of the team could not be sustained during the COVID shutdown – a risk that does not exist for outsourced F2F.

    Is there any value to research in-house models from Australia and other markets and identify common success factors and failure points?

4. Are there any parts of the F2F process that are always best outsourced?

5. Are there any parts of the F2F process that are always best done in-house?

   - We didn't cover these questions directly in the call however they were a factor in other aspects of the discussion.

6. Is there a role for alternative business structures?

   a. B-corporation

   b. Social enterprise

   c. Not-for-profit

   d. Charity co-operatives / "Rippling"

- Rippling CEO (Phil Lowther) is in place and is looking at ways to manage the challenge of high labour costs with partial independent contracting as a potential model.

- There could be an entity to manage quality control on behalf of the charities to allow charities to engage directly with sub-contractors.

- The charity could "move downwards" and take on some functions currently performed by agencies and engage directly with fundraisers or sub-contractors.

- Charities could cooperate to pool these functions and reduce the overhead and financial risk, including due diligence and compliance functions.

- Agencies could "move upwards" and take on some of the functions currently performed by charities in donor care, donor contact etc.

- Such a move "upwards" would require agencies to be significantly more sophisticated and larger scale than current Australian agencies.

- Diversity of billing models will lead to a diversity in business models as agencies adapt their structures to benefit from financial incentives aimed at specific outcomes.

- Is there scope for an agency set up specifically for best practice F2F?

There is a need to develop business model plans for submission to charities.

Are there larger, more sophisticated agencies in other markets who might be invited to Australia to perform a wider range, or deliver higher quality services? Is there benefit to researching this?

7. What value do conventional F2F agencies provide in the current model?

- The value seems to have been eroded as agencies lose margin and reduce overhead spends.
- Sub-contractors have reduced the ability of agencies to contribute significant value in some areas, but sub-contractors do not have the skills or perhaps motivation to manage higher end tasks such as compliance and quality management.
- Agencies still provide account management, which is lacking in sub-contractor skill sets.

8. If sub-contractors are to be a major feature of the market for the foreseeable future – how can we structure business models to minimise the problems they cause and maximise the benefits they offer?

9. With COVID disruption likely to persist for the foreseeable future is the current agency model of SMEs operating in a single channel in a single market sufficiently robust? If not, what are the alternatives?

10. Are there alternatives working well in other markets?

- These questions were not covered in depth and may be worth raising in the wider Irregular Giving forum or in review by this group.

  Is there value in reviewing other markets to assess other options for F2F supply and whether they might be applicable to Australia and NZ?

11. Are there really any new billing models that will have a significant impact on changing things for the better – or is this just re-arranging the deckchairs on the Titanic?

- Enthusiasm for billing models that cover agency upfront costs for labour and reward longer term quality (noting that these are being proposed / tested by some agencies).
- Noted that this model requires capital to provide cashflow in the period between the upfront fee for acquisition and the trailing fee for retention – agencies do not have this capital, but some charities do.
- Is there any way to assign a financial value to other work carried out during F2F fundraising – for example capture of useful data?
- Can F2F fundraising be better integrated into other charity activities to provide a benefit both to F2F and to broader charity goals?

Can we investigate opportunities to broaden the scope of F2F and to find value in the current or broader scope to improve financial outcomes for charities and agencies?

Can we investigate ways that charities could provide support for a retention based trailing fee model without exposing themselves to excessive financial risk?

3. Next steps

- Fundraising Partners will be releasing our own concept for a new business model within the next few weeks – we will be keen to test this concept with this group and the rest of the Irregular Giving community.
- We will be releasing this paper to the wider group and asking as many people as possible to come up with innovative business models for discussion.
- The acid test is whether people are prepared to make a genuine commitment to offer and test new models – to get some skin in the game.
- We will be sourcing funding from interested parties to support further research into the recommendations in this paper.