

The long tail of philanthropy

Lucy Bernholz*

Reorganizing the revenue stream

“What is worth more, one dollar from each of one million people, or a single million dollar gift?” Tom Munnecke, an individual donor and a creator of the website GivingSpace,¹ asks this question knowing that most organizations will cite transactional costs and choose the single large gift. Aggregation is a key to philanthropic impact and the costs associated with it have typically fallen to those doing the fundraising. Changing the dynamics of aggregation will allow us to consider a different valuation of those million givers. As Munnecke elaborates, one million people engaged in the act of giving is a much more powerful force than a single individual’s extreme generosity.²

The financial resources available for giving are enormous. Each year Americans alone give more than \$US 200 billion, but most of this enormous sum comes in small gifts from millions of individuals. The breadth of this generosity is a key strength of the revenue stream as it flows through every nook and cranny of our society and toward every political ideal, social cause, and religious value. At the same time, the disbursed nature of the sources and the difficulty in aggregating these small pockets of funds prior to their final destinations dilutes the potential impact of small givers.

Until now only those funds which came in big packages were influential in shaping agendas, crafting organizational missions, or launching new initiatives. Now, however, a fundamental and simple shift has occurred in how and when philanthropic gifts are aggregated. A variety of new tools – some purely technological and others that demonstrate the power of social organizing – now allow givers of small gifts to pool their funds at the front end. In doing so, they gain both influence in the revenue stream and power in the marketplace of donors.

We have already experienced this aggregating phenomenon in many commercial spheres. The ability to reach many individuals with many choices is called reaching “the long tail” of the market. As Chris Anderson, Editor of *Wired* Magazine wrote about the long tail of the entertainment industry, the truly remarkable thing about a market’s long tail “...is the sheer size of it. Combine enough [nonhit records] on the long tail and you have a market larger than the hit [records].”³

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¹ See www.givingspace.org

² For the full account and discussion of Munnecke’s transformational calculus, see <http://www.givingspace.org/papers/microphilanthropy.org>

³ Chris Anderson, “The Long Tail,” *Wired*, October 2004, Volume 12, Number 10.

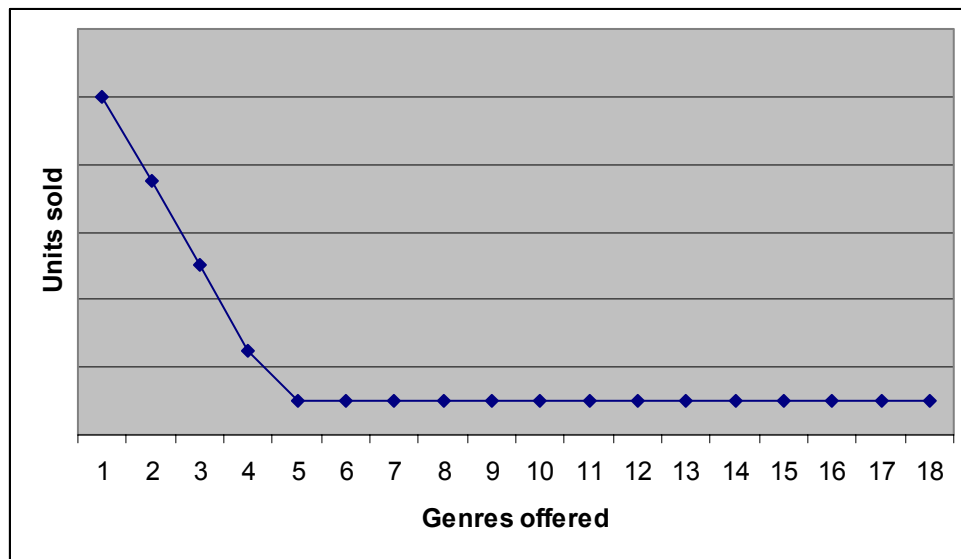
Accessed online on June 22, 2005 at http://www.wired.com/wired/archive/12.10/tail_pr.html

The power of the long tail has been with us for a long time, think of all the used bookstores that focus on specific genres or the special-interest sections of record stores. What has changed dramatically is what Anderson calls the physics of these markets. With the internet the physical location of scattered special interests is no longer a barrier to reaching enough small groups with special interests – Liberace aficionados can find each other and his old music. So can fans of the newest house bands. As producers and users of niche music, books, or ideas are able find each other with ease, the need to appeal to the masses diminishes.

The power of the long tail

This phenomenon has been playing out in music sales, magazine publishing, film making, and radio playlists – dramatically changing the business models that underlie each of those industries. In each case the fixed costs of production and distribution had dictated that only selections with the largest possible audiences or user bases could get made. Specialty interests simply didn't attract enough people to recoup the costs of making, playing, or showing the product.

Technology – from the creation of the MP3 format and internet distribution to satellite radio stations to online magazine publishing – have shifted the center of gravity. The costs of production and distribution are much lower and the ability to reach broadly is much greater. This makes smaller, scattered audiences profitable, which in turn allows the marketing of many, niche genres rather than a few, general appeal categories. Graphed on a scale of units sold and number of types offered, the picture of a viable market looks like this:



Since only a few of the offerings sell in large numbers (see items 1-4 in the chart above), distributors in a physically-restricted market like this will only offer products 1, 2, 3, and 4. The costs of reaching the few customers for each of products 5-18 and beyond are simply too high.

The internet changes this. Once the physical costs of reaching out to universal audiences are the same or less than the costs of marketing locally, the potential

market for products 5-18 becomes profitable. While the individual sales of products 5-18 may still be small, when they are aggregated they swamp the cumulative value of products 1-4. Once the costs of selling products 5-18 drops low enough, there is a market there. Technology has driven those prices down and made it possible for those buyers who want to buy products 5 – 18 - those who are on the “long tail of the market” – do so. This is the power of Apple’s iTunes Music Store, Alibris antiquarian book sellers, WebMD, eBay, and Craigslist. What has happened in industries as varied as music and journalism is a redistribution of market power the millions of individuals who constitute the long tail.

The short and long tails of philanthropy

The philanthropic revenue stream also has a long tail. The billions of dollars given to nonprofits each year comes from a mix of individuals and institutions. The gifts themselves come packaged in many combinations of financial products from church tithes to foundation grants to small checks to charitable annuity remainder trusts to monthly credit card charges. Foundations represent one old notion of aggregation – once an individual’s resources become large enough to matter, they are pooled into an endowment and then gifts are made from this corpus and its earnings. For private foundations the resources may come from one family or company, alternatively a community foundation aggregates resources across many families. In both cases, however, giving follows aggregation.

Alternatively, individuals or families of lesser means have had to make their gifts themselves and allow the recipient organizations’ to aggregate them. Individual giving campaigns are critical parts of many nonprofit organization’s revenue plans, but it is the aggregate value of those gifts that really matters. The costs associated with pursuing and managing hundreds or thousands of small gifts or memberships are significant. Organizations are always looking to maximize return on the costs of these gifts. For some organizations, a large number of members is important to their mission, and so these costs are born purposefully. Many other organizations, however, seek to transition their revenue into fewer gifts of greater size to reduce the costs of raising these funds. In either situation, the individual giver has relied on the organization to pool the funds and make decisions about where best to direct these resources. The donors gave first and the funds were aggregated later.

With the rise of online giving and social networking technologies, individuals can still make small gifts but they now have the power to aggregate first. This is made possible through financial tools, such as donor advised funds, that allow a donor to build up a corpus. Human networks, such as Social Venture Partners, also let givers pool gifts and then make joint allocation decisions.

The biggest change, however, is just now becoming visible over the horizon. Whole new classes of technology-based giving sites are coming online that enable individuals to find like-minded partners before giving a dime. These tools, which complement the existing mix of financial tools and human networks, allow small givers to aggregate their resources across time, distance, and issues, based on their own preferences and beliefs about where, how, why, and when resources should be used. They give small givers the opportunity to see and learn about opportunities across the globe, to debate potential solutions with other givers as well as activists, and to access and apply research findings or data that shape the solutions they support.

Here is an example. Resource constraints in the past have kept givers of \$25, \$100 or \$200 gifts from having access to the strategies, research, evaluation, or support staff that accompany gifts of \$25,000, \$100,000 or \$2,000,000. While the small gifts are welcome and important parts of nonprofit groups' budgets, they were not likely to get the organization off the ground or help it set its agenda. Now, tools such as GlobalGiving, MeetUp.com, and Network For Good, encourage lots of individuals or small foundations to find their peers, discuss and develop a joint strategy, aggregate their ideas and small gifts into a larger fund, and then make gifts that can shape a strategy or pursue joint outcomes.

In simplest terms, technological tools for giving and social networking have flip-flopped the old relationship between giving and aggregation. In the past, we needed to aggregate first by building an endowment or pooling significant funds and then give from that corpus after it had grown significantly. Simplified, this approach looks like this:

Aggregate Big → Give Small

Now, it is possible for hundreds, thousands, and millions of small gifts to be given individually, aggregated by the donors, and then deployed in the aggregate. This approach shifts the order of aggregation to the following:

Give Small → Aggregate Big

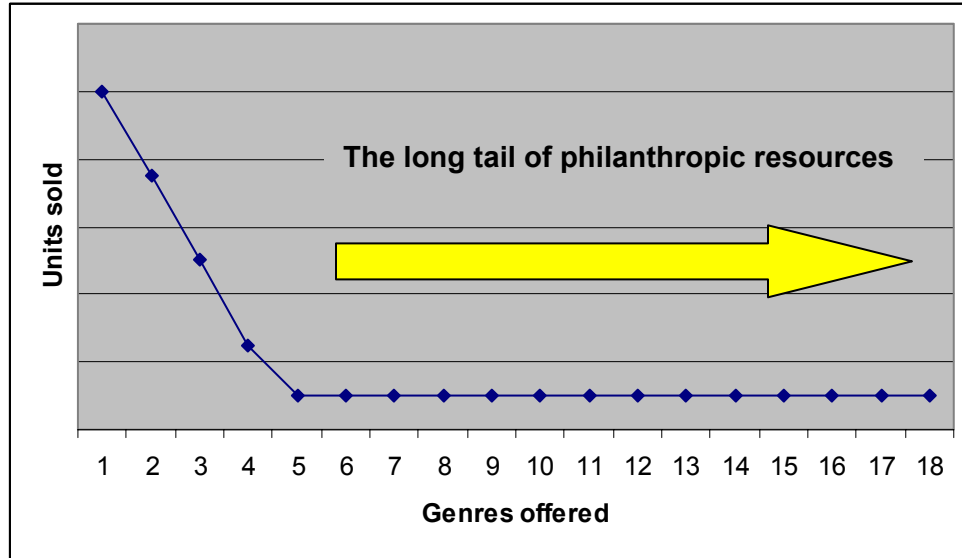
More important, it shifts the power of aggregation from the recipient organization to the donors. After all, aggregation has always occurred – it simply happened at the level of the recipient organization and was not available to the individual donors. The givers of these small gifts were important to the organizations in the aggregate, but too numerous to be given great say or influence individually. The power to aggregate has been put in the hands of donors, regardless of the size of their individual gifts.

Aggregating philanthropy

The shift to the long tail will tilt the philanthropic revenue stream, as more and more individual givers discover their ability to inform and aggregate themselves. We will see a shift in the power of philanthropy from large institutional donors to the multitudes of individuals who comprise this giving majority. As we have grown accustomed to networking tools we know that the cost of reaching thousands is only nominally more than the costs of reaching a few. As we shift our expectations about who we can reach, we also shift our attention about who to include. Very soon the great numbers of individuals who contribute the majority of philanthropic gifts will be able to reach each other, share ideas, and pool resources. They will begin to organize the previously unorganized and partner with like-minded peers regardless of physical proximity or size of assets.

At the long tail of philanthropy there are hundreds of thousands of individuals, donor advisors, and unstaffed foundations, each of whom individually gives much smaller amounts than large foundations but whose collective gifts dwarf those of their institutional brethren. The edge of opportunity for institutional philanthropy is to find ways to encourage, involve, learn from and influence this far end of the philanthropic revenue stream.

Plotted as a distribution curve, the tails look like this:



These changes will help the multitudes of small givers reap the benefits of their cumulative generosity. We can imagine several new services for individual donors and small foundations resulting from this shift. These could include benchmarks and guidelines for giving to issues and real-time revenue measures that show gaps and opportunities as well as heavily-funded sectors. Donors might choose to pool their resources and commission the types of research or evaluation studies that larger funders now use. They might even begin to sequence their giving against that of larger funders who have invested in start ups. Individuals with a few hundred dollars and a passion for saving threatened habitats or providing kids with safe afterschool spaces could launch their own "mutual funds" – pooling many small gifts into a larger fund that would then be donated to the issues or organizations of choice.

Commercial innovation wags the tail

Two commercial purveyors of philanthropy tools are playing right in this sweet spot. FoundationSource, a privately held company based in Connecticut has built technology platforms that provide a full array of administrative, grantmaking, reporting, and tracking tools for small foundations. The tools automate the reporting processes, addressing both the legal and fiduciary responsibilities of trustees. That system is integrated with tools to manage grant making, make committee allocations and monitor investment returns. Each foundation can customize the system to meet its needs and contract with FoundationSource for administrative support as necessary. Already the service has driven down the administrative costs and headaches of foundation management.

FoundationSource's current client base is made up of many small foundations. In the aggregate, it already has hundreds of millions of dollars in foundation assets being managed on its systems. Even as it offers ample security and respect for individual privacy, the company is building a massive database of gifts and givers behind all these foundation transactions. These data, aggregated from the many clients, will in turn allow FoundationSource to provide new opportunities for donors to find

partners, pool funds, share interest areas, seek colleagues, or join others in their work. The commercial purveyors of charitable gift funds, who already manage billions in collective assets, are also positioned to develop second generation products built from these aggregated data.

Another company, Kintera, is using the web to provide individuals, nonprofits, and foundations a suite of tools to manage their giving (or fundraising) online at low cost and with tremendous ease. Kintera offers fully integrated packages of fund accounting, customer relationship management, and content management that provide nonprofit organization with all the tools they need to manage their operations and conduct cost effective mass appeals to donors. Bundle this package slightly differently – by adding an online grantmaking module, for example – and Kintera offers small foundations and individuals a one-stop shop to manage their giving. Kintera, too, is developing critical new data sources that can aggregate information in real time about funding for certain issues, the status of challenge grants, trends in giving or fundraising, and allow data slicing in ways that have not previously been possible.

Connecting the many with the money

Individual donors now can easily do their own aggregating and allocating, disbanding and reconvening, researching and monitoring. They can reach out on their own to partners across the globe at any time of day or night. Every organization that now sits in the middle of these processes – from community foundations to advisory firms to professional program staff and donor services experts – is hustling to reposition their services in ways that complement the new connectivity.

Community foundations have long been an important resource in connecting donors to each other and to causes that matter. There are more than 700 community foundations in the United States and another 550 spread across more than 40 countries. These foundations provide individual donors with access to the information flow used by large foundations. The Kansas City Community Foundation runs *DonorsEdge*, a web portal that gives individual donors' secure access to the foundation's due diligence reports and analyses of giving opportunities. Community Foundation Silicon Valley specializes in connecting Diaspora communities in Northern California to their homelands, through a global network of community foundations. So far strong ties have been built for California's community members back to home towns in India, Ireland, and the Czech Republic.

An alternative twist on this community foundation connectivity is at work in the Philippines. There, more than 300,000 individuals contribute the equivalent of pennies per week to their local foundation, collectively building a permanent endowment for their community. This fund has gained international attention, which allows it to attract bigger gifts from abroad as well as some of the millions of dollars Filipino immigrants send back to the country each year. Another tool built to capture some of that immigrant revenue stream is the Philippine Diaspora Portal, built with support from institutions to inform the millions of individuals involved in Philippine development efforts.⁴

The Annie E. Casey Foundation, a national foundation based in Baltimore, has taken another approach. It has dedicated a small part of its staff and financial resources to

⁴ <http://www.filipinodiasporagiving.org/>

learning with and from donors to local neighborhood and childhood issues across the country. The locals gain access to the Casey Foundation's multimillion dollar and long-term research and evaluation resources; Casey builds relationships with the very organizations and individuals whose giving is likely to sustain long-term local change efforts.

In 2003 The W.K. Kellogg Foundation launched an effort to see what kinds of structural and organizational tools could be developed to facilitate just such connections. The Foundation wanted to learn how to better connect the ends of the philanthropic giving spectrum, the long tail and the short tail, and whether or not there were tools that could do this in a cost-effective and scalable way. The Foundation selected several organizations that provide services to both philanthropic institutions and individual donors.⁵ The Philanthropy Tools Cluster, as the group came to be known, included seven organizations with two things in common: they all used information as a key resource and they all served to connect and aggregate resources from both ends of the philanthropic spectrum.

The organizations in the Philanthropy Tools Cluster deliberately connect individual donors with the resources of institutional philanthropists. In some cases, this connection is primarily about information, such as through the giving portal provided by Network for Good. In the cases of Women's Funding Network and the Foundation Incubator, joint giving, partnership opportunities and information sharing for institutions and individuals are provided. These organizations very deliberately serve two markets – individual donors and foundations. Each of these organizations targets multiple markets and provides new products. Part of the value to each market is access to the other.

Donors are not waiting for institutions to serve them, however. Donor circles such as Social Venture Partners, have established chapters across the United States, where individuals each contribute a few thousand dollars and then make joint giving decisions. Many Mexican Americans working in low-paying jobs, for whom \$5 or \$10 a month are significant contributions, are organizing HomeTown Associations to pool their small gifts into larger funds for their villages in Mexico. Online tools such as GlobalGiving or the Philippine Diaspora portal allow individuals to contribute as part of larger funds. The wisdom of the many is also being sought through these online tools. Community sites such as Omidyar.net, Socialedge.org and Ashoka's Changemakers.net have thrown open the doors to community input – encouraging discussions, seeking feedback on ideas, and letting the community select projects for funding through the Changemakers Innovation Award Competition.⁶

An emerging infrastructure

All of these efforts share two common markets – individual and institutional donors. They are trying to develop products or tools that can be applied in a variety of settings, ranging from co-location facilities to virtual communities of online givers. The strategies that succeed will be those that provide both types of customers with effective and efficient access to each other. To do this, they must play the role that eBay plays for buyers and sellers or that credit card networks provide to merchants

⁵ Acumen Fund, Association of Small Foundations, Foundation Incubator, GlobalGiving, GuideStar, Network for Good, and Women's Funding Network.

⁶ See www.omidyar.net, (a project of the Omidyar Network), www.socialedge.org (funded by the Skoll Foundation) and www.changemakers.net a project of Ashoka (www.ashoka.org)

and shoppers. Individually, these organizations help institutional philanthropy and individual donors find each other, share information, and, eventually, aggregate resources. As they succeed, we will see a new infrastructure emerge. This new set of supports will connect all parts of the revenue stream and either lower the costs of or add value to each and every giving transaction.

Conclusion

As the long tail of philanthropy gains visibility, change will reverberate through nonprofits and foundations just as MP3 recordings and internet distribution redefined the music business. Niche interests will gain visibility. Communities of givers will define and redefine themselves. Old barriers of time and place will bend to the 24/7 nature of the internet and the global characteristics of issues such as human trafficking, drug use, and cultural creativity will shape how and where we think about social change and philanthropy. Boundaries that once separated donors from the organizations they fund and the individuals those organizations serve will come tumbling down, just as fans now reach out directly to artists and musicians and they communicate in turn through blogs or podcasts.

The new power of the individual donor has ramifications for large institutional givers as well. Large foundations are increasingly aware that they need to attract other sources of funding to the projects they fund if those investments are going to succeed and the foundations are to achieve their own goals. We are starting to see examples of foundations working across the revenue stream to bring together the resources the job needs. These are key sign posts of the future connections we can expect to see across philanthropy.

Developing new types of relationships between institutional and individual donors is critical to making sense of the philanthropic revenue stream and helping nonprofits reach sustainable funding mixes. Many large foundations have invested significant resources in finding partners among their own kind or seeking public resources for their programmatic initiatives. In neither case have the large foundations been broadly successful. Real partnerships and successful public relationships among organizations on the left side of the curve remain the anomaly, not the norm. Meanwhile, we look over time at sustained nonprofit activity and see that those that survive are the ones that have cultivated ongoing support from funders on the right side – the long tail – of the revenue stream distribution curve.

The likelihood for a significant transformation of nonprofit organizations is quite high as individual donors gain the power of aggregation. As a first order change, organizations that once relied on a few large donors might find themselves retooling to serve individuals. Other organizations that now depend on simple membership tokens to thank individuals might find themselves needing additional staff to manage the input, demands, and aggregated voice of their disbursed but vocal constituents.

This direct access between individual donors and the causes they care about will profoundly reshape the landscape of philanthropy and nonprofit action. MeetUp.com, for example, provides a way to find those who share your interests, get together, and act – all without any organization providing intermediary assistance. DonorsChoose allows individual school teachers to reach individual donors; to date this has mostly resulted in small gifts for classroom level activities. Soon both ends of this equation will be able to aggregate their requests and their contributions in

ways that may make school foundations duplicative or that shift the way schools and districts seek private funding.

Yet one of the most important changes may come from very subtle shifts in the ways we value philanthropy. Whereas big givers have garnered most of our attention and support to-date, the visibility of the long tail of giving will require us to reconsider the real source of value is in the giving stream.

Tom Munnecke of GivingSpace notes that at a certain point the impact of aggregation ceases to be additive. He posits the idea of a “transformational calculus,” based on the network effect that comes into play when millions of givers and millions of recipients can communicate directly, share resources and stories, plot strategies, and exchange information, ideas, and hope. As the long tail gains influence in philanthropy, we will see the results of this transformative calculus on revenue flows, organizational structures, missions, and nongovernmental action around the globe.