

The long tail of philanthropy

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Recognizing the revenue stream

Aggregation is the key to achieving philanthropic impact. Financial resources for giving are enormous – but most come from small pockets and flow independently, thereby diluting the potential power of the multi-billion dollar revenue stream for social improvement. In the last five years, however, a fundamental and simple shift has occurred in how and when philanthropic gifts are aggregated.

The landscape of philanthropy is dotted with individuals and institutions, and they vary in ways they package their gifts, from foundation grants to small checks to charitable annuity remainder trusts. Foundations represent the old notion of aggregation – the resources must be large enough to matter and then the gifts come from an aggregated pool. For private foundations the source of the resources may be one family or company, alternatively a community foundation aggregates resources across the families. In both cases however, giving follows aggregation.

With the rise of online giving and the use of social networking technologies, individuals can give first and let aggregation happen later. Rather than having to wait until enough funds have accumulated that an endowment can be created or a large pool put onto the table, individual and givers of small gifts can cost effectively support the issues they care about first and then let the powers of aggregation kick into place.

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.

The power of philanthropy in the twenty first century will finally come from the many small foundations and donors who comprise the majority of all giving. These donors have always accounted for more than 75% of all charitable gifts, while foundations and corporations provide relatively small pieces of the overall financial pie. However, the buzz, the scrutiny, the regulations, and the systems of support are set up to serve institutional givers, not individuals.

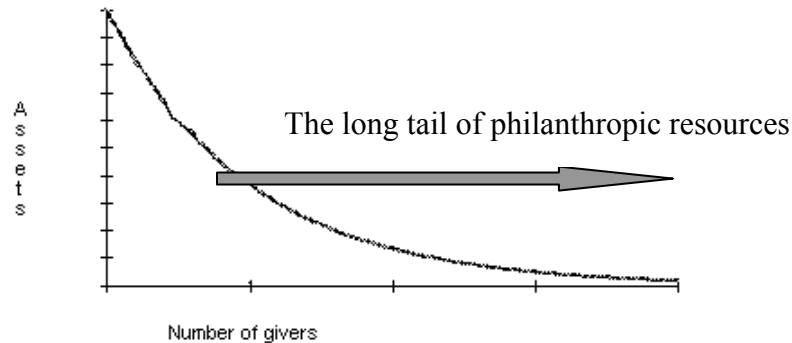
Recently, however, we as a society have grown accustomed to communications tools that encourage and rely on broad participation. These tools make the cost of reaching thousands only nominally more than the costs of reaching a few. As we shift our expectations about who we can reach, we also shift our attention about who to include. Finally, the great numbers of individual donors who manage the majority of philanthropy can reach each other, share ideas, and pool resources. We can begin to organize the previously unorganized and partner with other like-minded entities regardless of their size or location.

¹ This article draws from a paper originally prepared for the philanthropy tools cluster organized by the W. K. Kellogg Foundation. Thanks are also due to Alan Preston and Tina Joh of Blueprint Research & Design, Inc. for their research support.

Why does this matter? These unorganized, unaffiliated small foundations, donor advised funds and individuals control more than \$200 billion in gifts each year. At one end of the philanthropic revenue stream are the relatively few staffed foundations (about 3,000) that account for large sums of money. At the other end, at what researchers call the “long tail” of the market, 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.² 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.

² Chris Anderson, “The Long Tail,” *Wired Magazine*, October 2004

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



Developing new types of relationships between the organizations on the left side of the curve and those on the "long tail" 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.

Foundations have started to recognize that they need their projects to attract other sources of funding if 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.

Tools to connect the few with the many

One great irony of the current philanthropic landscape is the abundance of opportunities that professional foundation staffs have to work together compared to the scarcity of opportunity for everyone else. Currently, the 65,000 U.S. foundations employ fewer than 18,000 staff people. This small universe of foundation professionals can choose from more than 300 networks and organizations for sharing information, ideas and resources. Of these networks, best estimates are that their membership actually draws from no more than 7,500 foundations, or about 12% of the whole.³

Meanwhile, the individuals and donor advised funds that make up the "long tail" are virtually unsupported in terms of network resources and connecting pathways. Ironically, foundation professionals have more ways to work together than they can choose from, and other philanthropists don't have enough.

³ See Bernholz and Guthrie, *Philanthropic Connections: Mapping the Landscape of U.S. Funder Networks*, Washington, DC: Forum of Regional Associations, 2003, www.blueprintrd.com and *Funder Networks in Action: Understanding Their Potential for Philanthropy*, draft paper available from Grantmakers for Effective Organizations, www.geofunders.org.

This structural imbalance – where the big guys have too many connections and the little guys can't get looped in – defies any logical use of network resources. While community foundations are an important source of these connections, new ways of reaching out to individual donors and including them in the information flow enjoyed by the large organizations have emerged. The W.K. Kellogg Foundation invested in several such entities in 2003 and 2004 to see how these aggregation efforts were working and what, if any, tools might be developed to better connect the ends of the philanthropic giving spectrum.

Kellogg's Philanthropy Tools Cluster, as the funded entities were called, included the seven nonprofit organizations that provide services to both philanthropic institutions (foundations) and individual donors.⁴ All are organized around information as a key resource. And all serve to connect and aggregate the 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. A deliberate part of the value to each market is access to the other.

An emergent infrastructure

The organizations in the Tools Cluster share two common markets – individual and institutional donors – and 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. Like all good innovations, the final tools that the cluster organizations build will come on the backs of several rounds of trial and error. One thing these tools will all have in common is they will have to facilitate transactions between the individuals and institutions. They will succeed when they provide the two markets – individual donors and institutional foundations – with effective and efficient access to each other. To do this, they are modeling their experiments on. In this way, they play the role that ebay plays for buyers and sellers or that credit card networks provide to merchants and shoppers. Individually, these organizations help institutional philanthropy and individual donors find each other, share information, and, eventually, aggregate resources.

Shared information and resources are the backbone of philanthropic collaboration and aggregation. Currently, the networks that assist funders in this kind of work stand alongside the foundations as member associations or issue based networks. They support the funders, they are not themselves funders. What we are seeing in the very different examples of conservative funders, community foundations and the tools cluster is a fundamental shift. As foundations reach out to each other and to individual donors, and as organizations emerge that are deliberately built to serve

⁴ Acumen Fund, Association of Small Foundations, Foundation Incubator, GlobalGiving, GuideStar, Network for Good, and Women's Funding Network.

both tails of the revenue stream (like the organizations in the Tools Cluster), they are building anew the infrastructure for philanthropy.