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Philanthropic Comparison Shopping

Series on Emerging Issues in Philanthropy
The Council on Foundations

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“Even the future is not what it used to be.”

Paul Valéry

The common introductory question for philanthropic advisers, foundation donor services staff, estate planners, attorneys, financial planners, and accountants is “How do I get started in philanthropy?” And, for a long time, the answers also had something in common. Regardless of what that answer was – work with a community endowment, start a donor advised fund, start a private foundation – for each donor there was one answer.

This has changed. As the number of giving options has multiplied, as donors have read about private foundations in the newspaper, giving circles in the airline magazines, and community foundations in the major business weeklies, they are aware of the choices that exist. And as they learn of these different options they are choosing all of them, not one of them.

This phenomenon – the use of multiple giving vehicles – is important for the donors, the advisers, the purveyors of these vehicles, the nonprofit and public sectors that interact with private philanthropy, for all of us. The use of many giving vehicles by many people represents a major change in the ways individual givers and philanthropic institutions interact and the ways these institutions need to think about the donors who fund them.

The choice of many vehicles instead of just one mirrors a larger trend noted in recent studies of Internet commerce. These articles comment on the fact that most new car buyers now come into dealers’ showrooms having first done extensive web research. These buyers are getting better prices, refusing expensive add-ons, and playing one dealer’s offer against another’s. The same behavior is seen in patients coming into doctors offices with reams of medical information and customers bringing online book reviews into local bookstores, looking to get their book now and save delivery fees.

The Internet has made it far easier for consumers (and philanthropists) to learn about the choices available to them. Armed with this information, the philanthropists are doing the same thing they do as consumers – they are looking for value. Just as the consumers behavior have implications for the car dealer, doctor’s office, and bookstores, the philanthropists behaviors has implications for the institutions that serve them, be they banks, brokerage houses, private or community foundations.

Better informed, better choices

Donors want to know what they're getting for their money. Their choices, for actual giving vehicles as well as for research, are increasing rapidly. "Should I start a private foundation, a community foundation donor advised fund, use a charitable gift fund, or set up a charitable remainder trust? Should I join this giving circle or work with the company contributions committee?" These are real choices for donors. The tax benefits of the different options are only one set of factors in the decision. Many donors factor many other elements into their decisions, such as perceived impact, control, or name identification, or personal values.

As donors do the research and talk with advisers, they are essentially comparison-shopping for charitable giving benefits. These donors want to know what they can reasonably expect from a private foundation as compared to an endowed donor advised fund, supporting organization, charitable trust or charitable gift fund. What differences in operation, cost, and community impact should they expect to see from the giving they do by themselves and that which they do in a venture-giving network? What are the staffs of their private foundation doing that the community foundation's donor services and program staff are not?

The cost benefit analysis cuts many ways: overhead costs, shared knowledge, tax breaks, name recognition, peer learning, ease of access to fund statements, 24 hour online customer services, hi-touch personal attention. All of these get factored into the decision; just as car buyers weigh the pros and cons of gas mileage, cool looks, metallic paint, engine size, and environmental impact.

For community foundations and charitable gift funds this competitive analysis is quite familiar. Private foundations, however, have rarely had to justify themselves to this audience for these reasons. How do private foundations compare to these other vehicles? How do they show it? What does this new pressure mean for relationships between foundations? Between foundations and the range of other giving vehicles?

Even those entities that are familiar with the competitive nature of the industry have been used to the decision being an all or nothing one. But with the advent of multiple giving vehicles, the decisions are far subtler, because the donors are choosing (and using) some or all of them and waiting to see different results.

Many more models on the lot

The growth in organized philanthropy over the last decade has been well documented. Hand-in-hand with the overall growth has been the explosion in

giving options. A decade or so ago a donor would have been advised about the differences between a private foundation and a community foundation donor advised fund. Several strategies for actually transferring the funds – cash, charitable remainder trusts, appreciated stock, annuity gifts – were also discussed, but the number of end-vehicles was fairly limited.

It is the changes in this ‘end menu’ that is having such a significant effect on the overall landscape of organized philanthropy. A short menu of options available to donors now includes several choices and many purveyors:

Giving vehicle or structure	Purveyors
Donor advised funds	Community foundations Financial service firms Colleges/universities 501(c) 3 organizations
Supporting organizations	Community foundations 501(c) 3 organizations
Endowments	Private foundations Colleges/universities Community foundations 501(c) 3 organizations
Workplace giving	Corporate foundations Corporate giving programs United Ways Alternative workplace giving
Giving circles	Many models exist, e. g. Social Venture Partners, SV2, Full Circle Fund, Legacy Fund
Public grantmaking charities – issue or identity focused	501(c) 3 organizations
Resource pooling	Philanthropic incubators
Online issue funds	EGrants.org, GiveForChange

During the initial selection process, the choices tend to be made along the lines of ‘startup issues’ – cost, name identification, and control. Advisers of all types have mastered the factors that play into decisions at this point, and can easily guide a donor through the differential tax benefits of one type of fund over another, as well as help them choose which will best fit their family’s needs or their desire to be recognized (or remain more anonymous) for their giving.

The numbers of options available increases the need for advisers. It also increases the need for donors to be able to find these advisers. Donors also need to be clear about the fee structures under which the advisers operate and the range or limitations on the product line they are selling, just as is true with other financial services.

The two-car garage

As the options increase and donors use more of them, the ability to actually compare one type with another increases. New donors are deliberately setting up private foundations, donor advised funds, working with their corporate contributions program, joining a giving circle and setting up remainder trusts. Rather than an individual donor being identified with a single vehicle, individuals are managing their giving through multiple vehicles, expecting different returns, and leveraging the connections.

Some donors are adding vehicles to their portfolio as they identify new interests, or learn more about philanthropy. Others are deliberately 'road-testing' the vehicles against one another, looking for low fees from one, collegueship from another and high performance from yet a third.

This preference for multiple giving vehicles changes the nature of decision-making for donors. It also changes the advice that estate attorneys, investment advisers, and financial planners are offering their clients, and should influence

the ways that community foundations and other institutions think about their relationships with donors.

"Some donors come through our door with several giving vehicles already in place. They want different things from each of these options – we help them to use them as complementary tools, not mutually exclusive ones."

Sterling Speirn, Peninsula Community Foundation

The car-buying example is helpful here. If you are planning to own only one car for your family, it has to be able to meet the many different desires and needs of that group. It may have to be big enough for six, be more fun than a minivan, and still be able to fit into a city-size parking space. On the other hand, if you are buying the family's third car, you may be able to focus on the desire for a cool new electric vehicle because the station wagon and sports car are already in the garage.

This also holds true for donors choosing multiple giving vehicles. They expect different things – different tax results, different fee structures, and different impacts – from their donor advised fund, their private foundation, and their charitable gift fund. And they still might be interested in joining a giving circle so they can be part of a collective effort as well.

And sometimes, the hybrids fit best

Donors are choosing multiple options, and they also are mixing them together. The current typology of giving structures doesn't make much room for an 'entrepreneur-focused giving circle that includes as members private foundations and uses venture capital investment returns for collectively-

identified charitable purpose,' but one (at least) exists. Giving circles that establish donor advised funds (either at community foundations or financial services firms) exist. Public charities set up as collective giving circles for corporate giving programs exist. These examples are proliferating as new and experienced donors realize the options that are available to them.

A donor may seek to retain control and family involvement, minimize financial reporting requirements, maximize the tax break, and learn from more experienced peers. In this case, setting up an organization and paying for staff while managing the funds as donor advisers through a local progressive community fund and using a web-interface for all giving, proposal review and marketing makes the most sense. And this is only one (real) example of how donors and advisers are deliberately hybridizing from existing models to create new ones.

We can only track these examples anecdotally now, as the data sources on foundation giving don't count these hybrid structures. But these hybrids represent key new players on the philanthropic landscape. Each one represents a new solution – built from existing parts – tailored to fit the donor's desires. As we look to the horizon to see what the future may hold we should be sure to look closer in as well. Evolutionary theory tells us the importance of "resilient mutations," and these are springing up all around us.

New expectations

The Internet has changed our expectations about information. We expect to be able to find out what we want to know at any time of day or night, and to be able to search resources remotely that would have previously required a trip to the bookstore, library or car dealer. It has greatly expanded the options available to us, sometimes making us feel like there is too much information and too many options.

Donors choices to use multiple giving vehicles not only matters to the individuals and their advisers, it matters to the purveyors of these vehicles. The purveyors need to be able to distinguish themselves as both separate from and complementary to the other strategies. Recognizing that a donor may already have a charitable gift fund, the community foundation donor services manager should be looking for ways that a foundation fund can help the donor meet different goals, as well as

complement what they already have underway.

"All these giving vehicles can work together. Both established and emerging philanthropies realize they have a common goal of encouraging giving. In Pittsburgh, private foundations helped start SVP as part of a community development strategy. Individual donors can be connected to both SVP and a foundation, and now the foundations and the SVP networks are connecting as well."

Talbott Simonds, SVP and private family foundation board member

This issue of complementary strengths is new and difficult for institutional philanthropy. Most differentiation of vehicles to date has focused on the tax advantages and fees side of the equation. The next phase is for donors who wonder about differentiation of impact.

Many advisers are seeing donors choose many vehicles when they first get started in philanthropy, and then re-visit the mix a few years later. As more donors get experiences working through each of the different giving vehicles, they too may want to make changes. The variation they will come to look for in their charitable portfolio will no longer be at the issue level (e.g. arts, education and community life) but at the 'fund' level (e.g., donor advised, private and giving circle). Philanthropy lacks the metrics to assess this portfolio mix, as well as enough experienced advisers to guide these decisions. Given the high creation rate for new funds in

the last ten years, we can predict an increased need for both advisers and metrics as the donors assess their giving and begin to ask this second phase of questions.

"Some donors come to us a few years after getting started and say, "I'm not happy with [a particular] philanthropic structure. This other one works better. I want to change the mix. We need advisers who can help them do this when it is time, and help them avoid reaching this point from the beginning."

Jeff Shields, US Trust

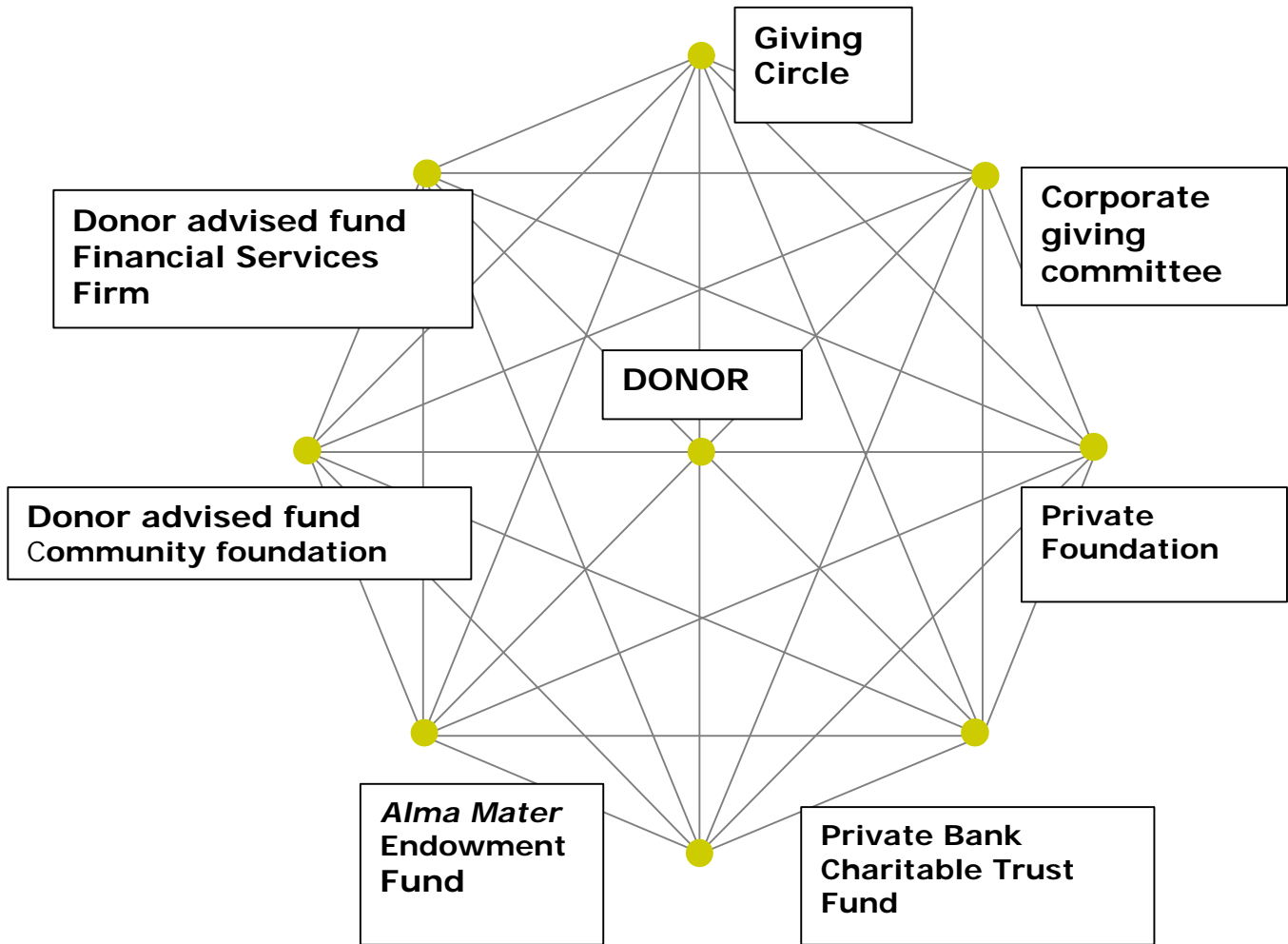
The power of networks

Donors with multiple giving vehicles should be clear about what they want from each type of fund. For example, many members of giving circles have other funds of their own (either private foundations or donor advised funds). They are deliberately working through the giving circle to take advantage of the learning seminars, the peer networks and advisers, and to try something new with a small individual commitment. The giving circle helps them expand their philanthropic Rolodex enough that they may not need to hire staff for a small foundation, or they feel more confident bringing ideas to the community foundation staff. They also serve as connective tissue between these institutions, helping pass ideas back and forth from foundation to giving circle to corporate funding committee and so on.

Many giving circles are set up with this very intention – that the members will find one issue to pursue as a group, but that subgroups will spin off of to pursue issues of interest to them. These subgroups then form their own new networks and can often use the other resources of their members and not need to build another pooled fund.

When you look at the network of multiple giving options with the donor at the center, (as in the picture below) you begin to see the power of these connected giving options. The staff or advisers at each node on this circle should be aware of the other nodes in order to be most helpful to the donor and to promote the greatest philanthropic action.

A donor's network



Roots of the trend

Using multiple vehicles is a new trend with long roots. Many foundation donors have continued their own individual giving well after they endowed and staffed their private foundation or established their donor advised fund. They were aware of the different characteristics of these options and deliberate in their choice.

Choosing to work with both private and community foundations is perhaps the longest-running example of multiple giving. For decades, significant

donors such as the Packard and Haas families in the San Francisco Bay Area have been active on the boards of family foundations while also committed and generous board members of local community foundations. In many cases various members of these families also remained active in the corporate giving programs of their companies as well.

Most donors who find themselves with multiple giving options got there through an organic process of accretion. They did not set out with a strategy for achieving their philanthropic goals and then carefully select the one or two most appropriate giving vehicles to get them there. This happens for several reasons, the first of which is simply the explosion in options. Second, the catalytic event for donors regarding philanthropy is often tax planning more than a single overarching social goal. So they establish or choose certain structures based on their tax, financial and family planning and then try to use that structure to achieve the goals they do identify. Often, they learn of another giving option along the way, and add that to their mix. A few years of this, and before they or their advisers know it, they have a private foundation, a donor advised fund, a charitable gift fund, and are still active with the company's giving.

The third driver of this trend is the inability to distinguish, based on outcomes, between the different giving vehicles. Advisers can help donors choose between the front-end tradeoffs of tax liabilities, ownership, identity, and revocability. But there is no credible independent analysis that can tell a donor that a community foundation donor advised fund would help them achieve their philanthropic goal more effectively than will a private foundation. Nor is there readily accessible guidance that can help donors match their goals to the giving options. Unlike establishing a business, where it's easy to find solid information to guide the choice between a sole proprietorship, partnership, or corporate entity, a new donor has a hard time aligning the right philanthropic vehicles to their philanthropic goals except through experience.

Considerations for the future

Knowing that a donor already is using several different giving vehicles to achieve her philanthropic goals changes the landscape for all involved. It is not a purely competitive decision between one option and another. A much more nuanced set of factors is involved, and good advisers can help donors see the complementary nature of the choices they are making.

The trend toward multiple giving vehicles has several implications for philanthropy. These implications are cross-cutting, but for clarity's sake are broken down according to interest groups within the whole.

Donors:

- Will comparison-shop across options, structures, and vehicles.
- Will seek metrics that can help them assess impact across structures.
- Will use some vehicles temporarily, rather than in perpetuity.
- Will continue to mix-and-match, creating new hybrid structures that best fit their needs.

Purveyors of donor advised funds

- Will operate in an increasingly competitive field, watching out for new purveyors from both the commercial and nonprofit sectors (witness the rise of university-based donor advised funds)
- Will offer complementary services to keep donors as repeat customers.
- Will need to continually educate their advisers about changes in the industry. Cross-sector educational opportunities will be important.

Nonprofits and public sector partners

- Will seek to map the connections between vehicles and the donor networks.
- Will be able to leverage connections with one 'node' of a donor's network.

Institutional philanthropy

- Will need metrics to assess impact of different vehicles, as well as ways to articulate the roles of complementary strategies and networked giving
- Will need to reconsider standard definitions of philanthropic activity when measuring entities, and may need new categories for philanthropic networks or hybrid structures.
- Will benefit from deliberate 'cross-pollination' of ideas between financial services firms and the nonprofit sector as donors seek hybrids.
- Will see the impact of late 1990s boom in new fund creation five to ten years from now as the start-ups settle in.

Conclusion

The boom of the late 1990s is just beginning to show its impact on institutional philanthropy. We have seen (and are still seeing) an explosion of new giving vehicles coming into the market. We can find many examples of hybrid entities being formed by creative philanthropists. And donors are choosing multiple giving vehicles, creating new networks of funds, and looking for both differentiated and complementary value from each of their choices. All of these changes mark the beginning of new terrain for philanthropy, one that calls for keeping one eye on the horizon, one in the rearview mirror and both hands on the wheel.

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