

Vinay Bhagat: I'd like to start with a question. How many of you here in the room today work as staff members or officers of nonprofit organizations? And of you, how many of you believe that the Internet is going to be strategic to your growth in the next two years?

Good. That's a friendly audience, then.

I'm going to talk about how I believe nonprofit organizations can apply Internet technology to create a sustainable support base.

I'm an avid reader of Peter Drucker, and he was quoted in August of last year saying that the Internet is going to have more impact on nonprofit organizations than for-profit organizations for the simple reason of capacity; that it really does give nonprofit organizations a tremendous new burst of capacity to do more with less.

When I started Convio a couple of years ago, I looked at the nonprofit sector as an outsider. I had worked with a number of Fortune 500 companies, trying to understand how to apply the Internet and e-commerce to their strategies. When thinking about the nonprofit sector, my outsider's viewpoint led me to see a few key points.

One was that there is increasing competition for support and dollars, for volunteers and donors. But those donors are changing. No longer are they old, multigenerational donors who bequeath their funds just because that's how they've been brought up. There's really a concept of a new breed of donor.

To give a very emblematic example here in this region of the country, someone like Steve Case. Someone who's new, the founder of AOL, someone who's very much new to money but lives on a different timescale where he operates 24/7, or needs to be interactive in a very convenient manner.

I also think that society in general is used to a more personalized and relevant form of communication today as a result of the Internet. But it extends beyond that. Nobody today actually orders coffee. When you walk into Starbucks, you get your skinny tall decaf double-whipped mochacino, and that's emblematic of the fact that everyone wants to have a more personalized experience in every aspect of their life.

I think that translates to how donors want to interact with a nonprofit organization as well.

But the fundamental point I'm going to be talking about today is one of capacity. Today, many nonprofit organizations we work with feel immensely constrained in terms of what they can do with their small staff. They find that they're spending almost 80 percent of their time on administrative work – be it pledge cards, *save the days, outbound mail campaigns – and find that they have increasingly less time to do the work they need to do, focusing on stewardship, focusing on managing relationships, and focusing on trying to create a more sustainable support base for their organization.

Today, however, I'd have to say that there is pretty limited adoption of the Internet truly as an effective medium for nonprofit organizations. And that's for a couple of reasons.

In my mind, there's not a lot of clarity as to how one should proceed, and that's causing inertia. Just to take one aspect of the adoption of the Internet by nonprofits, less than one percent of funds today are raised online, in general. There are some exceptions to that

rule. In the public-radio sector, there are people like WAMU here in Washington who consecutively raised over 30 percent of funds online in their last three campaigns.

There are people like the Planned Parenthood Federation of America, who we work with, who raised 66 percent of funds online in their most recent campaign.

There are also limited metrics. Twelve months from now, if I speak again at a forum like this I'll be able to present a lot more metrics about how the Internet has changed in terms of bringing advocacy and fundraising online, how it's impacted volunteerism, how it's impacted retention rates of donors. But today there are limited metrics.

But there should be optimism. The reality is that nonprofits today have a tremendous opportunity ahead of them to use the Internet. My thesis is that there is a tremendous opportunity cost to not acting today. Really fundamentally, because it does afford you a tremendous capacity.

In terms of creating a sustainable support base, there are three elements to how nonprofits can embrace technology. One is prospecting, attracting new forms of support to your organization. The second stage is engaging those supporters so they become activists or donors for your organization. And the third stage is retention.

Again, as an outsider coming into the sector, I was surprised to learn that the average donor-retention rate in the nonprofit sector is somewhere in the range of 50 to 60 percent. It varies by sector, but that's a good rule of thumb.

Think about that for a second – a 55 percent retention rate. If you were not to do any prospecting or acquisition-type activities for donors or volunteers or activists, within about 3-1/2 years your support base would have reduced to zero.

So anything you can do to increase retention rates has a significant impact on an organization. In my early research, we interviewed a public radio station in Boston who had a 56 percent member-retention rate. They calculated that changing their retention rate just four points would translate to a 30 percent delta in performance improvement. So it's a very significant point.

How does technology really help, specifically the Internet? I often get asked about how to drive people to a website. It's all well and good having a phenomenal web presence, but it's no good unless you can drive people to your sites.

Traditional media, be it your newsletters, your communiqués, et cetera, are the primary mechanism today by which you are going to attract new traffic and new visitors. But when you do drive people to your site, it's essential that you are doing as much as you can to get them to register and give you their email addresses so they don't remain anonymous constituents who visit your site, but they actually become active prospects, or active people that you can communicate with.

We are speaking with another organization here in this part of the country that has almost a million unique visitors to their website. But they have no form of registering them, so those million visitors per month are lost on them when they could be actively added to their prospect file.

Another concept that sounds pretty unpleasant, but actually is a very, very powerful form of marketing is viral marketing. It has nothing to do with computer viruses; if any of you have been victims of those, don't fear. It's a very good thing. The notion is essentially how word-of-mouth marketing, or chain-type marketing, can be leveraged by a nonprofit organization to spread word very quickly electronically.

So you attract someone to your website. Then what? It's no good unless you can engage them and get them active and interested in your organization. Here are a few techniques you can get them to do that.

Have much more frequent and personalized communications. In a paper-based world it's very expensive to communicate, so what often happens is that organizations spend money on fundraising or activism-type communiqués, as opposed to communiqués around stewardship, or education, or things that may be of interest to a constituent.

Another concept that's really important is starting to use personalization. Do any of you shop at Amazon.com? Does anyone like shopping at Amazon.com?

Sir, what do you like about the experience at Amazon.com?

Attendee: It's easy.

It's easy. They have a concept called “one-click” shopping, which I'll talk about in a second. Are you a registered user at Amazon.com?

Attendee: Yes.

OK, what do you see as a registered user?

Attendee: (Garbled)

They greet you by name and they recognize you. People have studied the impact of personalization on commercial websites like Amazon.com versus organizations that don't use it. They've found that they're approximately five times more effective in terms of net revenue generated. And the principle is to treat someone as an individual. You show them books on wine if they're interested in wine, or books on dogs if they're interested in dogs. There's a propensity for them to spend more, or do more, with you.

And the same concept applies fully analogously to the nonprofit sector.

It's also about using tools like petitions and surveys and online community-building tools to engage people to your organization. And again, bringing in another concept from the commercial world, make it easy and make it convenient. If Steve Case happens to visit your organization's website, I hope it's easy to navigate. I hope he can give very simply.

So if you've got someone who's coming back to your website for a second time, make it a “one-click” giving experience.

Retention. People visiting your website can give you a whole host of information about themselves. Each time they interact or transact with you, be it they give, they sign up for an event, they fill in a petition, you're learning more and more about them. You're

learning about their interests, and you're learning about why they're active in your organization.

So it's important to capture that information, and then use it effectively

Once people are involved in your organization, they should become ambassadors. There are plenty of ways to use the Internet to enable those constituents to become ambassadors of your organization.

Here are a few examples of viral marketing. Again, it's not a bad thing; it's a good thing. Many of you may have been recipients of an email from Planned Parenthood Federation of America about their recent Presidents Day campaign, where they were basically trying to raise capital and also awareness of their cause by allowing people to donate in memoriam or in honor of President Bush because of his position.

Historically, Planned Parenthood had raised about 0.2 percent of its funds online. Through this campaign, they raised two-thirds of their campaign contributions online, raising over a half-million dollars in just a few weeks. And interestingly, this was a net-new contribution. Over 90 percent of the contributions were from people who'd never donated before.

Another pretty well-known organization is MoveOn.org, a grassroots organization started by two people, on a kitchen table basically, who decided they wanted to mobilize around the notion of censorship and moving on the political debate to the next level. They sent out an email to 300 of their closest friends, and within 60 days the email had reached 500,000 people who had actively voiced a voice of support.

That gives you a sense of how quickly viral marketing can take off.

They raised two million dollars through this campaign. And they also managed to build a database of active constituents. So on the issue of handgun control, they were able to get 40,000 people to sign a petition within 24 hours.

At the other end of the spectrum, a children's museum based in our hometown, Austin, Texas, started an active online presence in August of last year. They found that people who supported their organization started to forward messages to their friends to say, “Why don't you come join up,” “Why don't you at least register and subscribe to the email newsletter to understand when the museum has interesting exhibits?” They found that 90 percent of the people coming to their museum's website, or registering, had never given to the museum before, and they garnered new forms of support.

So it's a very powerful concept.

Another concept: email. Email truly is the killer application. It's very powerful. Firstly, in the university sector, we've seen 2X response rates to email versus direct mail. Stanford University did a study where they compared two 500-person test cells. They looked at the response rates for email and direct mail and found a double response.

Harvard did another study where one of the recipients sent them a \$10,000 gift online and said, “Do not ever solicit me by paper again.” Maybe that's an extreme example, but it's emblematic, I think, of a lot of people's reactions. They would much rather interact electronically.

Another very important point is that it's very hard to mobilize a paper-based campaign. Say you have something timely that needs to happen quickly, the Internet and Internet technology allows you to take action within 30 or 45 minutes, whereas it may take you several weeks to do something by mail or paper.

And, of course, cost. If the average personalized email costs around three to thirteen cents to send versus a direct-mail piece of 50 to 60 cents, you can obviously do a lot more communication with your constituents than just doing the once-a-year ask.

If you are going to send out email to people, there are a few important concepts to think about. One of them is thinking about them as being “closed loop.” What that means is that half the email drives to some form of action. Here's an example of a constituent of a museum fine arts who receives an email saying, “We thank you for your contribution last year. It's time to renew. Here's how we spent your funds, and we'd really like you to come back and make a renewed contribution.” So you drive that person to the appropriate campaign page, or giving page, that's relevant to their interest and to their previous level of support.

Again, it's applying a very simple concept that works in the commercial sector about driving someone to specific content that's relevant to them.

Talking about this concept of personalization a little further, there have been some successes online with personalization across the nonprofit sector. The World Wildlife Fund has found success with a part of their website called “My Panda,” where people sign up for specific alerts on the subject of ecology and announcements that are relevant to their interests.

In the university sector, the University of Dayton, Ohio, found that they had very high response rates to an email newsletter to their alumni base. Historically, they'd seen response rates of around 2 to 3 percent. But they saw response rates on their electronic medium of about 30 percent by sending out content that was relevant to alumni.

In the old world, you're all used to collecting a lot of data about your constituents, the people who support your organization. Taking a fundraiser's view of constituent relationships, you've traditionally kept information on affiliations, on contact history, on membership history. The Internet allows you to capture a lot more information. That may be interactions that they have with you on your website, it may be online gifts, or online registration for events.

But it's really important that you start to embrace the concept of having a unified view of constituents. If you have offline data that's been captured, and online data, how can you use this data in a collective pool to do more intelligent and more segmented relationship-management and marketing?

One of the questions that was asked today was that the Internet is being used by a number of large organizations – the World Wildlife Funds of this world – who are able to spend millions of dollars on technology, but how can smaller organizations embrace this medium?

The Internet truly does democratize technology. It brings the type of technology that historically has only been accessible to the largest organizations to the very smallest. We

work with groups ranging from Planned Parenthood at the largest end of the spectrum down to very small and regional nonprofit organizations. There are a number of businesses that are positioning themselves as application service-providers, where they essentially lease their services to organizations versus selling them. In that scenario, a small nonprofit organization can benefit from economies of scale when somebody else manages the technology.

We also hear a lot about the difficulty of managing technology in-house, and that you have to provision for upgrades and for keeping up to date. This new breed of service provider will allow you to keep pace with technology on a very dynamic basis, so you're always using the latest form of technology.

But as was alluded to earlier, the technology market is pretty unstable, so it's important to pick a partner who you know will be around for the long haul, and who's reliable.

What should you look for when considering a technology partner? Look for how they intend to use your membership, or your donor or constituent list. Are they going to re-market to them or are they yours to own? How stable are they as a company? How much are they investing in future product-development so you know that you won't be left with a solution that's current today but not tomorrow?

To summarize, it's my thesis that the Internet and Internet technology in particular will have a significant impact on this sector. I believe as per Peter Drucker that the fundamental gain that will be solved is an increase in capacity, where an investment today will yield a many-fold return in terms of helping to create a sustainable support base.

The cost of inaction is too high. If you don't want to spend a lot to start your Internet efforts today, there are options in the form of application service-providers that can allow you to get going at an affordable price. This will allow you to start to develop metrics, start to move paper-based relationships online, and start to enable you to learn how to use this new and powerful medium.

My advice and counsel is, start today. Partner. Take strategic baby steps that are aligned to how you think your long-term strategy for using the Internet will shape.

Thank you.

Tuckman: Vinay, I'm thinking of a question that was asked in the morning session. Somebody in the audience said, "We're running on 386 technology," which, as you know, is a wee bit primitive at this point. Supposing you are a company, you've got maybe two or three very weak PCs in there, you don't have a lot of technical support. Realistically, if a nonprofit comes to you, what can you give them? What can they expect from you or a consultant?

Bhagat: The new breed of application service-providers such as us starts with the premise that nonprofits should not be in the technology business themselves. That means they don't need to have a lot of infrastructure in-house, they don't need to have a large technical staff to be able to operate their systems.

It's an outsourcing model where all that's needed to access the technology is a computer with access to the Internet. In other words, a browser and a connection.

Obviously, their experience is going to be a lot better on a more modern machine than a 386, and with a fast Internet connection. Two years ago when I started Convio, it would be fair to say that most organizations did not have a fast Internet connection and had outdated machines. I interviewed about 500 nonprofits before I started the company.

Most of the organizations we work with today have some form of high-speed connection in their office and at least one or two modern machines. If not, we’re finding that if it’s a smaller organization then maybe the executive director has a home PC with Internet access, maybe a cable connection, where they can operate on line at home.