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Offering attractive options

What can current retail consumption tell us about donor spending in the recession?

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Sustaining the flow of donations will be key to charity survival through the recession. The fundraising sector is a highly competitive market, with ever-growing numbers of charities aiming at the philanthropic pound. Cancer, international and hospice sub-sectors have expanded particularly fast – there are now over 250 charities supporting cancer research. As charities draw up marketing strategies for the coming recessionary year, what can they learn from retail sector experience of current market forces?

Suspense reigned over both charity and retails markets in the run-up to Christmas, but in the event both sectors fared better than feared. Many of the largest charities reported their Christmas appeals were well up. Clearly, there is still money out there, but consumers have been playing hard to get, and maintained a cat-and-mouse game with retailers to get the best bargains in seasonal gifts and sales opportunities.

But while there is substantial retail trading, the sale of luxury items is down. This may be bad news for charities. Economists classify charity as a luxury good – donors give more when they earn more (and vice versa!). Current consumers are highly sensitive to perceived price. It is items *seen* as extravagant, unnecessary or a luxury that will be cut back.

This is affecting the organics market, where the premium is still often perceived as 'nice-to-have', but not essential and perhaps over-priced. Trading in this area was 30% down. For some consumers, charities may lie in the same ethical product market as organics. The sentiment which generated a special effort for charities at Christmas may not hold up throughout the coming difficult year.

Although overall spending has not fallen hugely, the mix and spread has changed. In spite of its powerful marketing spin, Tesco did not gain such a large Xmas market share as expected, while Aldi and Lidl saw their profits increase. Most significantly, savvy retailers anticipated the changing pattern of purchases and purchasers.

Communicating a strong, confident but frugal message will be crucial to maintain consumer confidence. However, image alone will not be enough and purchasers will be more thoughtful about what are real bargains and how far will their money go. As recent high-profile retail collapses such as Whittards have shown, it's the smaller, specialised impulse purchases that will suffer unless consumers have a very strong sense of their importance.

There are clear lessons here for charities, both for offer and communications. The survivors will be the most manoeuvrable. And there is room to manoeuvre. Mergers are an obvious if daunting area where efficiencies can be gained. The Charity Commission's new (-ish) register of mergers shows around 120 were realised in 2008. This might seem impressive, but many were local branches of Age Concern, in the run-up to its marriage with Help the Aged – a move which surely many donors will rate well in the longer-term, in spite of some conflicts of loyalty? CRUK has emerged and maintained its position as the largest European fundraiser, post-merger, attracting a tantalising 8% market-share of donations [1]. Yet the number of significant mergers in remains small.

Forthcoming research will show how the opportunities of charity outsourcing remain under-exploited[2]. Resource-sharing presents another approach. The 2006 BASSAC report[3] showed how clustering various functions can strengthen the smaller community-based organisations. In harder times larger charities might do well to approach such options more seriously.

Donors are uneasy about charity costs: recent US research showed 62% of the public thinks charities spend too much money on overheads[4]. Average cost ratios for charitable expenditure are around 75%, but vary widely across charities and sub-sectors, partly because of differences in reporting. As donors cut personal expenditure, they will expect evidence that charity operations are as cost-effective as possible. Marketing spin, as seen with Tesco, will not be enough to beat the real frugality of the Aldis and Lidls. If charities' overheads go up, donors will vote with their feet. If charity salaries go up while others are suffering a pay-freeze, donors will want to know why.

Most importantly, charities must convince donors that they are efficient and what they offer is effective and affordable. There are real sensitivities to be addressed. Charity must not be seen as a luxury for donors, or for their beneficiaries. Doom about 'black holes' in charity finance[5] are unlikely to inspire donors who must feel confident that the carefully ring-fenced charity pound in their purse will make a difference.

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[1] Pharoah, C. *Charity Market Monitor 2008*. CaritasData.
[2] Pharoah, C. Forthcoming 2009. Joint Cass - Charity Business research.
[3] Harrow and Bogdanova (2006). *Sink or Swim*. BASSAC.
[4] (Ellison Research, 2008
[5] Guardian, 01.12.08.