

**Harvard Business School
Social Enterprise Series
No. 18**

The E-Philanthropy Evolution

James E. Austin

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The E-Philanthropy Revolution

James E. Austin

The Internet Revolution has spilled over into the philanthropic world and holds potential for transforming that social arena just as it is doing to the commercial world. The e-Philanthropy entrepreneurs have created a host of new Web-Based Social Enterprises (WEBSEs) that offer entirely new ways of mobilizing philanthropic funds. My study of over 150 of these WEBSEs reveals significant potential benefits to nonprofit organizations, individual donors, collaborating merchants, and corporate giving programs.¹ This research sheds light on the motivations and challenges of the e-Philanthropy entrepreneurs, the business strategies they are deploying, and the dynamics of this new Internet industry. It is in its infancy and still in flux. But the e-Philanthropy Revolution has begun.

THE WEB'S E e-PHILANTHROPY SECTOR

First, a map of the sector. This emerging sector of the new economy consisted in mid-2000 of around 180 internet enterprises operating in seven segments (some operate in more one segment and new entrants continue to stream in):

1. ***Nonprofit Information Hubs (25)*** are aggregators of information on the Internet that attempt to organize and in some cases evaluate the vast information available online for individuals interested in nonprofit issues. Currently the two best examples in this category are Helping.org, a site sponsored by the AOL Foundation, and Charity Village, a Canadian site that also provides an extensive amount of information and links to sites related to the U.S. philanthropic sector.
2. ***Online Giving Directories (45)*** provide a searchable database of nonprofit organization from which perspective donors can search for a cause that interests them and make a donation to the cause electronically. These web sites allow all nonprofit organizations to receive donations through Internet channels. The AOL Foundation's Helping.org is the most recognized web site in this category, but many other organizations offer a similar service including Givenation.com and AllCharities.com.
3. ***Workplace Giving*** is transitioning to the electronic world with a host of Application Service Providers (**10**) that develop and sell applications systems to corporations that allow employees to make donations through their company's intranet. This service has significant implications for the traditional workplace giving campaigns run by United Way. Charitableway.com was the first to announce this service, although other companies like AllCharities.com also offer the service.
4. ***Click-to-Donate (29)*** sites employ a basic cause-related marketing (CRM) model. These sites offer Internet users the ability to make a small donation to a given cause or charity in exchange for viewing a small advertisement. In general, corporations agree to make a small donation to the cause for each person who clicks on a "Donate

¹ The author expresses appreciation to HBS Research Associate Jason Kreag for his excellent assistance in this research.

Now” icon. After clicking on the icon, the Internet user is then presented with a screen that shows the corporate sponsors for the service. By far the most successful organization using this model is The Hunger Site. It supports the United Nations World Food Programme. The site is currently owned by GreaterGood.com.

5. **Charity Shopping Malls (55)** are a unique blend of e-commerce and nonprofit fundraising. The online mall negotiates contracts with e-tailers to have a percentage of each sale generated through its site contributed to a nonprofit organization. The models vary, but they generally allow the individual shopper to designate a specific nonprofit to receive approximately 5% of the purchase price of each transaction. The most recognized WEBSEs in this space are iGive.com, GreaterGood.com, Shop2Give.com, and Schoolpop.com.
6. **Online Auctions (20)** allow nonprofit organizations to expand the traditional auction fundraisers into events that are not constrained by geography or time. The online auctions potentially allow for a larger number of buyers and sellers. eBay and Yahoo both offer charity auctions along with their commercial auctions. A small number of other WEBSEs also specialize exclusively in nonprofit online auctions.
7. **Volunteer Clearinghouses (10)** take advantage of the ease with which information can be exchanged online to match volunteer opportunities with interested volunteers. The organizations provide fluid databases of opportunities in a wide range of geographic areas and for a variety of nonprofit causes. Impact Online’s VolunteerMatch.org and Idealist.org are the major organizations in this category.

In addition to the above WEBSEs, there are a variety of ASPs that provide technical assistance and services directly to nonprofit organizations to enable them to operate in the Internet arena.

THE e-PHILANTHROPY PAYOFF

A fundamental benefit of the Internet is that it makes imperfect markets work better. The new WEBSEs enable more nonprofits and donors to get greater access to each other more efficiently and effectively. Entirely new channels have been created. In one sense, the Net helps level the playing field. Small nonprofits now have access to larger donor pools that previously could only be reached by the bigger nonprofits equipped with sizeable fundraising staffs and resources. David Eisner, head of the AOL foundation that created the Helping.org portal sees the WEBSEs as “democratizing” the giving process. The e-Philanthropy entrepreneurs believe, with the support of early evidence, that their new vehicles will make giving easier, attract more first-time donors, and stimulate bigger than average donations.

As the population of Internet users continues its rapid growth, so too will e-philanthropy. Online giving is in its infancy. In 1999 we estimate from various sources that about 4% of the donors contributed online about \$10-million. However, the growth trend is dramatically upward. Online contributions through all of the channels described above in 2000 are estimated at over a quarter billion dollars and we project that by 2010 one-third of donations will be online. Even by 2004 Forester Research projects online shopping to reach \$185 billion, with 21% of this being charitable affinity purchasing, which could

generate about \$2 billion in charitable rebates to nonprofits. The charity auctions on e-Bay alone to date have enabled nonprofits to raise over \$3 million. e-Bay expects this to increase dramatically as nonprofits become more acquainted with and comfortable using this vehicle and as the millions of bidders on eBay's regular auctions, now running at \$5 billion annually, migrate over to participate in the nonprofits' charity auctions. Huge potential also exists for having auction participants choose to donate some of the proceeds from their transactions on the commercial auctions to charities.

Another large source will be employee workplace giving, currently running at \$3 billion. The WEBSEs targeting this segment aim to transform existing manual methods to intra/internet-based giving which are estimated to reduce the costs of running workplace giving programs by about 25% through greater efficiency. United Way's traditional workplace giving system is facing upheaval from this disruptive technology. Furthermore, the increased ease and improved information for giving provided by the Internet is projected to stimulate more giving. This includes many new technology and smaller companies for which the computer-based giving system would be economically more feasible than the traditional paper and people-based method traditionally used by the United Way. Our industry sources estimate that as a result, workplace giving will expand to the \$5 billion level within the decade.

The current levels of donations that come from WEBSEs to individual nonprofits from peoples' shopping purchases, click to donate contributions, or even the online giving donations are small relative to traditional sources. But these are obtained with little effort or cost on their part, so are attractive from a fundraising cost-effectiveness standpoint. Over time these sources will increase in absolute and relative importance. But beyond the immediate donations, these new internet connections allow the nonprofit to develop an ongoing relationship with the new donor. The e-channels enable a quick and inexpensive exchange of information between the parties that might lead to deeper engagement and higher retention of the new supporters. Bruce Brownstein, Director of Charity Sales of eBay, emphasized this benefit: "Let's say you're auctioning off a tape recording machine, and it ends up selling for \$150,000. That's great because your organization gets \$150,000, but there are three hundred people that bid on that and only one person won it. Those other 299 people are an opportunity for educating about your cause. And hopefully make them sustaining contributors to your organization." The Internet payoff is all about making new connections.

DOT-coms vs. DOT-orgs

The emerging e-Philanthropy sector is populated with both for-profit and nonprofit WEBSEs. The split by segment is as follows:

	Dot-com	Dot-org	
Online Giving Directories	26	16	
Charity Shopping Malls	53	1	
Nonprofit Information Hubs	16	9	
Online Auctions	11	1	
Click-to-Donate Sites	29	--	
Workplace Giving Centers	6	2	
Volunteer Clearinghouses	3	5	

Seventy-eight percent of the enterprises in the e-Philanthropy sector are dot-coms, although the Online Giving Directories, Nonprofit Information Hubs, and Volunteer Clearinghouses support both dot-com and dot-org enterprise structures. A small number of organizations employ a hybrid model that incorporates both a nonprofit and for-profit structure.

The dominance of the dot-coms derives from their superior ability to mobilize venture capital and technical talent, both of which are vital to Internet companies, be they in the commercial or philanthropic sectors. 4Charity.com was originally launched as a charity shopping mall but it expanded to offer an Online Giving Directory and Workplace Giving Centers. The organization first incorporated as a nonprofit, but CEO Tracey Pettengill quickly realized the challenges of that status: “There were two dilemmas. One was that I couldn’t attract the talent I needed in Silicon Valley with the compensation I could offer. And two was I wouldn’t be able to raise the capital that I needed.” Consequently, 4Charity created a for-profit corporation through which it could raise capital and attract the needed staff. However, the nonprofit organization remained intact, and Pettengill and her co-founder donated a significant portion of their stock in the for-profit company to the nonprofit entity, which in turn distributes it to other nonprofit organizations in the community. This hybrid or dual structure exists for several WEBSEs. Pettengill explained that the nonprofit sector trusts 4Charity more because of its companion nonprofit.

The founder of VolunteerMatch.org (Impact Online), Jay Backstrand, opted for the nonprofit structure and explained the challenge of raising capital for a dot-org in this industry:

As we were starting to look at scaling our service, we were looking at an environment where it's really tough to get philanthropic dollars. Foundations move really slowly. Philanthropy doesn't like to take risk. We need to move quickly, and we're a risk. Imagine a start-up dot-org going to a major foundation and asking for \$35 million dollars. Absolutely not. There's no way. They don't even have a category, technology investment. And then to take a risk like that really isn't in the cards. So I think in the Internet space it's particularly difficult to get up and going."

The dot-coms in this incipient industry have been able to attract funding from venture capital companies and individual angel investors. Our estimate is these capital providers have invested as of mid-2000 about \$150 million into the launching of these new e-Philanthropy WEBSEs. But raising capital was only the first of many problems faced by the e-Philanthropy entrepreneurs.

OTHER BARRIERS AND CHALLENGES

Mistrust, Internet readiness, clashing cultures, technology, and regulation were other hurdles confronting the WEBSEs.

Nonprofits' Mistrust of Dot-Coms

To succeed, the WEBSEs must create a link with the nonprofit organizations to which they are trying to channel donations. Mistrust of the dot-coms by the nonprofits was a common barrier encountered by the e-Philanthropy entrepreneurs. Dominic Tracey, CEO of CommunityBids.com explained, "I've come across reluctance from some nonprofits who don't like the idea of these Internet robber barons coming in and trying to make a billion dollars off the backs and the labor of nonprofit volunteers." This perception of Internet entrepreneurs preying upon the nonprofit community has helped organizations like AOL's Helping.org. Its nonprofit status makes individual donors and NPOs less likely to question its motivations for providing these services.

Randy Dirth, CEO of GreaterGood.com, explains, "We have no regrets about being a for-profit raising money for not-for-profits. The more successful and profitable we become, the more good we can do--the bigger our influence, our scope, our reach can be in doing good. Growth is good, profitability is good. It allows us to become a bigger force, and as a result we'll raise a lot more money.

Executives at iGive.com also feel that the company's for-profit status allows it to grow more quickly and create a sustainable model for nonprofit organizations using its service. CEO, Rob Grosshandler, questions the companies in this industry that seem not to be concerned with earning revenue. He feels iGive and ultimately its nonprofit members benefit from the success of the company. iGive's Chief Marketing Officer explained, "It seemed that for-profit was the way to ensure sustainability." Nonprofit organizations still do present questions about iGive's corporate status, but the Marketing Officer explains

the company is always up front about its model. He said, “The key part of our story that we share is that we want to be a sustainable source of revenue for nonprofits. The way that we do that is by continuing to grow this company with marketing efforts that cost money and by bringing bright minds into the team.” Founder Grosshandler added another guideline in terms of working well with the nonprofits, “Our goal is to be as accountable and open and transparent as possible.”

Ami Kassar of Shop2Give.com, often receives similar questions about the for-profit status of his company. Like GreaterGood and iGive, he points to sustainability issues by asking nonprofit decision makers, “Do you want to be working with a company that is going to be around in ten years and is setting up a responsible business to do the things you can’t do yourself?” In most cases the response is positive. Pete Mountanos of Charitableway stresses the benefits of e-based transactions: “I’ll be cheaper than anybody else. I won’t have any errors. I’ll do it better, faster, and no float.”

Nonprofits’ Internet Readiness

The industry is also confronting the lack of Internet infrastructure in many nonprofit organizations. Much attention has been given to the digital divide that exists between nonprofit organizations and other sectors of the economy. As companies in this new industry face this fact, some of the WEBSEs are also working to improve the technological capacity of nonprofit organizations.

Many of the industry leaders recognize that their businesses depend on the nonprofit sector’s increased acceptance and use of all facets of the Internet. Doug Jamieson, Founder of Charity Village, explained, “Charities have to really get going. The world is accelerating away from them. Either for procrastination reasons or for the lack of resources, they haven’t jumped on the technology band wagon.” Susan Hackley, co-founder of Givenation.com explained, “Most nonprofit organizations do not have an Internet strategy. They know they need to do something with the Internet, but they’re a little bit afraid of it.” Katherine James Schuitemaker, Executive VP for Marketing and Sales at GreaterGood, also spoke of the challenges for her organization in having to deal with nonprofit organization that have “varying degrees of Internet savvy.”

In the auction area, the nonprofits also need special capabilities, as eBay’s Bruce Brownstein, Director of Charity Sales, explained: “The cause has to really lead the effort. We can help promote, but you’ve got to understand the eBay business model, which is to empower individuals. What we bring to the party is the audience. We have a great site that a lot of people go to, but we don’t have a staff of people who do all the work for them. They do it themselves.”

Clashing Cultures

Even for nonprofit organizations that understand the benefits of the Internet, there are cultural differences between the WEBSEs and the nonprofit community. The Internet companies are often frustrated by the time it takes for a nonprofit to make decisions on

new services and partnerships. Nonprofits do not operate on the same “Internet speed” that many of the WEBSEs utilize. At a recent meeting with a nonprofit organization Charitableway reported the nonprofit executive saying “eight months in nonprofit time is about a morning in Internet time.” One WEBSE manager explained, “Our pace is at a totally different level. Everything in the nonprofit sector is, ‘Well let’s review your proposal. If it doesn’t get voted on at this board meeting, we’ll vote on it two months from now when we meet again.’”

A founder of one Application Services Provider (ASP) for the nonprofit community said he wanted to “bridge that digital divide and put world class technology in the hands of organizations who couldn’t otherwise afford it or get their arms around it.” However, he reported that nonprofits were reluctant to agree to partner with him. He explained, “I spent literally months with a number of these players trying to get them to partner, and they just couldn’t make a decision—typical nonprofit issues around risk aversion and other things.”

David Eisner of AOL’s Helping.org attributes the passive response of many nonprofits to more than just a difference in culture. He also feels nonprofits are overburdened with evaluating the many different models developed in this industry. He explained, “Rather than becoming invigorated by the innovation in this space, many nonprofits seem to be paralyzed by indecision and not knowing which way to jump.”

Technological Innovation

Technologically the challenges facing WEBSEs are similar to that of any other Internet company, with the added complexity of incorporating a charitable aspect in each transaction. For example, the Charity Shopping Malls must offer the same conveniences and service that their pure for-profit competitors offer in order to capture the Internet shopper but also incorporate the links to the NPOs and provide tax deductibility proof for the shopper-donors. GreaterGood proved it can compete from a technical standpoint with all e-commerce sites by winning 3Com’s Retail Network Innovation Award. The ASPs have emerged as the technology enablers supplying the technical infrastructure and solutions, either setting up the Internet operations or handling back office operations on an on-going basis.

Legal Issues

Finally, there are significant legal and regulatory issues that affect this industry. These primarily affect WEBSEs that process online donations for nonprofit organizations. The issue surrounds whether or not the WEBSE and/or the nonprofit organization itself are conducting fundraising activities in all states when it offers an online donation option. Most individual states require nonprofit organizations to register as professional solicitors before undertaking fundraising activities in that state. It is less clear whether or not having an online donation vehicle, which can be used by anyone online, means the nonprofit is fundraising in all states. It remains uncertain whether or not a NPO that downloads a ‘Donate Now’ button would have to register in every state. Some WEBSEs,

such as Charitableway, have registered in all the required states, but this remains an area of regulatory ambiguity. State charities officials are meeting with members of the sector to discuss how the existing state registration requirements will be interpreted with regard to online philanthropy.

THE E-PHILANTHROPY ENTREPRENEURS' MOTIVATIONS

These new dot-com creators clearly see a business opportunity but are also energized by the social purpose of their e-Philanthropy enterprises. Although there is the possibility of personal financial gain, the likelihood of becoming instant millionaires through early IPOs seems far less than their counterparts setting up purely commercial internet companies. These e-Philanthropy ventures are social enterprises blending commercial and social purposes.

Pete Mountanos founded Charitableway.com after having created and sold other companies including to Microsoft for whom he also then worked. Having achieved considerable financial affluence, Pete could have retired in great comfort. However, he had grown up in a poor family and valued the important role of social service nonprofits. It was his frustration as a donor and the inefficiencies that he saw in the giving processes that led him to convince his venture capitalist colleagues to fund a new e-Philanthropy enterprise. He observed: "I think we're pretty close to the dot-org side in terms of our underlying values. We are far over on what I would call socially responsible business that tries to preserve much of the value system, but bring technology to it. It is important to note we do not try to disintermediate the existing infrastructures, but rather help them on the portion that lends itself to technology."

Ami Kassar, who founded Shop2Give at the age of 28, commented: "I don't see one company in this space actually being close to an IPO or to really cashing out of it. So, you've got to be a little selfless to choose to spend your time in this space. My motivation was a combination of the excitement of creating and manifesting social change and thinking this has the potential to be a very grounded, solid business opportunity."

Steve Grossman, President of the online giving directory Givenation, stated, "Our goal is to revolutionize charitable giving in America. We think that charitable giving is something that people would do more of if they had more information. We want to level the playing field between smaller donors—which is the market we're going after in general—and larger donors, who have far more information on charities that they are considering contributing to. Revolutionizing charitable giving, to see over the next five years as much as a third of the charitable giving in America done online, and have much of it be done through our site enables us to do well, to do good, and to really change the way people do something. That has meant a lot to all of us for a long time, the process of charity, philanthropy, doing good deeds."

The Chief Marketing Officer of iGive.com told the following story that helps explain the philosophy of the company:

My 5-year-old said something the other day, which I couldn't believe he had already learned to say. He had been collecting pennies to take to his class and a friend said, 'Why bring a penny? It's just a drop in the bucket.' He didn't even know what it meant, but he said, 'It's just a drop in the bucket dad. I'm not collecting pennies anymore.' The point is with a lot of those little drops you can fill a bucket, a tub, the ocean. We're not just a web site. We're a philosophy. It's a big, big dream here. There's a feeling here that the actions you take every day do make a difference."

iGive's VP of Product Management added, "I've never worked at a place that is more passionate about doing good. It's incredibly refreshing."

Randy Dirth, CEO of the charity mall GreaterGood.com, stated: "I joined the company for two simple reasons. First, I thought it was a very compelling business proposition. Second, I, along with all the other team members, really believe in the do-good component to it. And we think that it will change philanthropy in this country, as far as the incremental revenue stream that will flow to not-for-profits." Similarly, Dominic Tracey, Founder and CEO of CommunityBids commented, "This was a way that I felt comfortable getting up in the morning and putting in the long hours necessary. I think that one of the big attractions is that you're actually doing something that can be construed as socially responsible."

Rea Callender, founder and Director of Schoolpop.com, a charity mall for K-12 schools, was a former schoolteacher and later an internet entrepreneur. "I really wanted to help education in some way. I thought this was really an interesting opportunity to create a scaleable nonprofit. I think that there's huge opportunity in this social, nonprofit area to create something with a revenue stream that does at the end of the day the same thing that the nonprofit was going to do, except one big difference. If we were a nonprofit we'd be a nice company in Silicon Valley with 50 schools. We wouldn't have raised any money. Here is Schoolpop that raised \$50 million. We got into 16,000 schools within less than a year. Reader's Digest was in the last financing round and it has high involvement in thousands of schools. Our combined reach in the schools now is 50,000 schools. So, as a nonprofit I think you'd be in 50 schools in Silicon Valley versus 50,000 schools spread across the country."

Bruce Brownstein, Director of Charity Sales, highlighted the business rationale that led eBay to add charity auctions: "It's really tactical marketing. It's just another way to create a great branding statement for us, to create excitement and great items on the site so more people want to visit. So, it's basic business fundamentals that cause us to do this." Rich Godwin, Brand Manager of Yahoo Auctions, explained why they included charity auctions when they created their auction site: "This is obviously a good way for charities to make money. It's a good way to drive traffic, and it's a good way to get really good content on your auction platform. It just made sense to us from the beginning that

that would be sort of a win-win-win: good for the charity, good for the bidder, good for us because there are unique items.”

Buzz Schmidt, founder and president of GuideStar.org, a site that provides the online data base of nonprofits’ reports (form 990) to the Internal Revenue Service, explained his motivation: “If the public is ever going to have ultimate confidence in charities, then these documents have to see the light of day. So we said, OK, it’s going to cause a storm of protest, and everybody is going to be mad at us, but we’re going to put them up because it’s the right thing to do.”

But what about the motivations of the venture capitalists backing these new e-Philanthropy startups? Here, too, the social purpose of the undertaking appears to have been relevant in many cases, as revealed by the following quotes from e-Philanthropy entrepreneurs and funders:

- “People felt the idea was incredibly compelling, and our initial investors, and actually the investors all along the road, loved the fact that there is a financial upside and a social good that comes out of this company. So, we were able to raise money from the angel community in 30 days, which is really fast.”
- “The venture capitalists were not entirely concerned with revenue from the venture. They’ve made a bunch of money and now they want to do some good.”
- “The venture capitalist said to me, ‘This is the way to give something back. It’s better than a donation. If we can fix the philanthropy infrastructure through an investment, then we should do that.’ Nobody thought this was going to be the highest returning investment.”
- “Given two pretty good venture proposals, if one has got some give back component to it, you know it could be appealing as a way to diversify our venture capital portfolio. But that’s not the main reason we did it.”
- “I think that the people who were turned on to the idea thought that you got two bangs for the buck so to speak. On the one hand it was an opportunity to make an investment and make some money. At the same time, the investors also liked the idea of having some impact on philanthropy and encouraging philanthropy to embrace the Internet.”

ePHILANTHROPY STRATEGIES

Which WEBSEs will succeed will depend on the effectiveness of the strategies chosen, and distinct approaches appear to be emerging. Three key strategic issues are:

- Who drives the traffic to the site?
- Which nonprofit organizations to align with and how to gain their trust?
- How to capture revenue for the services?

Driving site traffic

Two distinct models emerge in this area. In the first model, the WEBSE maintains the responsibility for driving traffic or users to its site. It organizes a marketing strategy to attract the shoppers or donors. Once the individual users go to the site they are given a chance to choose from the list of nonprofit organizations to be benefited. The second model relies on individual nonprofit organizations to market the service or site. The nonprofits are encouraged to tell their constituencies to shop through a given charity shopping mall or to make online donations through a certain web site. Most organizations employ a combination of these two strategies, but the different emphasis they give to each one has significant effects on the WEBSE model.

The charity shopping mall iGive.com focuses on enlisting small to medium size nonprofit organizations and causes. It wants to sign up the local Girl Scout Troop, the community soccer league, or the local social service agency. It then relies on these groups to publicize iGive's fundraising opportunities to their supporters iGive reports that approximately 90% of its shopper membership is from referrals from its causes. The Non-Profit Shopping Mall designs customized shopping malls for each of its nonprofit partners. The nonprofit is then given a unique URL and is responsible for publicizing the service to its supporters. Givenation has partnered with well-known personalities and institutions, such as the Britney Spears foundation and the Doug Flutie foundation, to drive traffic to their site. Givenation will also install free for nonprofits who need it a "Donate Now" button on the nonprofit's website that will take the donor to Givenation's site to complete the transaction. These WEBSEs describe their strategy as a client- or donor-centered. They feel that relying on the member or partner nonprofit to promote the service keeps them connected to the individual users of the site. This push strategy also allows the WEBSEs to keep marketing expenses to a minimum.

GreaterGood employs a contrasting strategy. Although it provides its nonprofit partners with tools to market GreaterGood's fundraising opportunity to their supporters, it assumes the primary marketing responsibilities itself. It incorporates all forms of traditional marketing to generate traffic including print, broadcast and electronic media advertising. GreaterGood's original strategy was to "speak to the nonprofit's constituency via off-line marketing and convince them to become online supporters." They were targeting the current supporters of a given nonprofit. This strategy proved to be both expensive and slow, forcing the company to change its approach. It now targets the general online community in an effort to make them aware of the opportunity GreaterGood provides to contribute to nonprofit organizations through e-commerce. The theory is that these online users are already shopping with the Internet, GreaterGood simply needs to inform them about the ability to support nonprofits while doing it. Now the majority of its users chooses GreaterGood's mall and then finds a nonprofit to support once s/he is at the site.

The two models differ not only in who is doing the driving, but also who is being driven. One approach aims at converting current nonprofit supporters and other Internet users into online charity shopper/givers—existing supporters, new giving channels, a

deepening of the relationship. The other converts current online shoppers into charity givers—existing channel, new supporters, the creation of new relationships. The Internet shopper who comes to an ePhilanthropy site not at the request of a specific nonprofit is more likely to choose a nationally recognized organization.

Aligning with the Nonprofits

Another major strategy difference among the WEBSEs has to do with the size of the nonprofit database they offer to their users. Whether the WEBSE is operating a charity shopping mall, an online giving directory, workplace giving centers or any other transaction based service, it has to decide how many nonprofit organization will be eligible for the service. At one extreme are the companies like Helping.org that simply use the entire IRS database provided by GuideStar of almost 700,000 registered nonprofits which submit an annual report (form 490). At the other extreme is an organization like Working Assets that includes a relatively small number of organizations that meet a specific screen developed by the company. A still different model is used by companies like iGive that requires nonprofits to be proactive and register with the WEBSE to use the service. These different models have effects on both the nonprofit organizations and the individual users.

Helping.org's use of the IRS GuideStar database is rooted in one of the goals of the AOL Foundation, as President David Eisner explained, "We decided that we wanted people to be able to contribute to any nonprofit whether or not the nonprofit had an online capability." AOL Foundation's belief is that the Internet could "democratize the giving process...so that many more nonprofits, not just the high level brand names would be able to receive the donations." Shop2Give shares Helping.org's commitment to creating universal access to donors.

Many of the WEBSEs are trying to create value for donors by providing guidance through more information about the nonprofits rather than relying on the relatively sparse and imperfect information in the IRS reports. Some are also including evaluations of the nonprofits by independent organizations such as like the National Charities Information Bureau or the Better Business Bureau to provide quality reassurance to donors. This additional information also enables nonprofits "to tell their story" to potential donors to elicit support and begin creating a continuing relationship. Some WEBSEs require nonprofits to register with the site before they can be included in the online giving directory. To gain the trust of the nonprofits Givenation develops "an intimate relationship with the development professionals at each charity." Each registered organization has up to a 500 word description about its services listed in the database. The registration process helps ensure that nonprofit organizations receive donations made through the site quickly, because in order to register the nonprofit must have a merchant account. This allows the gifts to reach the organization in a maximum of 48 hours.

Whereas before donors had little access to nonprofits' operating information, the Internet is having a sunshine impact that could stimulate significant and welcome improvement in nonprofit reporting and accountability.

The WEBSEs that offer donors the GuideStar database assume that the listed nonprofits will appreciate another source of unsolicited revenue. There is an assumed alignment of interests. Some nonprofits, however, have expressed concern about implicit affiliation without their permission. The WEBSEs using a strategy of high involvement with the nonprofits (as site traffic drivers), however, have to make a special effort to gain the trust of their nonprofit partners. Those opting for a dot-org structure have a competitive advantage in this trust-building task. The dot-coms have to engage in relationship building through direct contact, convincing demonstrations of the value of their services, testimonials from satisfied nonprofits, and the use of high reputation advisors.

Revenue Models

There are five primary revenue models used in the e-Philanthropy industry, some specific to one or two industry categories and others used industry wide.

Transaction fees. The model that has gained the most attention from the nonprofit community and the press is based on charging some form of transaction fee. It is the primary revenue model used for Charity Shopping Malls and Online Giving Directories, however it is also used by some online auctions and workplace giving centers. Charity Shopping Malls operate by collecting commissions or affiliate fees paid by retailers on sales generated through the charity mall site. The WEBSE keeps a portion of these commissions and allows the shopper to designate which nonprofit organization will receive the other portion. Some Online Giving Directories keep either a small percentage of each donation or charge a flat fee for each transaction. Although it is not common, workplace giving centers can also operate on a transaction based model in which the WEBSE keeps a small percentage of each donation made through the site.

Advertising fees. A number of WEBSEs collect advertising and/or sponsorship money as revenue. Most Click-to-Donate sites rely exclusively on this model. They collect a portion of the corporate sponsorship money that is generated by each individual donation, or they simply utilize corporate sponsors for the entire site.

Application services fees. Some WEBSEs earn revenue by selling a software application to corporations or other organizations. This is often the case for Workplace Giving Centers. For example, Charitableway designs for a fee customized workplace giving centers to be placed on a company's intranet. The employees can then make donations through the site having 100% of the donation passed along to nonprofit organizations.

Partnering revenue. A small number of WEBSEs have also begun to partner with other Internet sites to generate revenue. Charitableway has agreed to a deal with iVillage.com in which it becomes the philanthropy provider for iVillage users. These arrangements involve a direct fee or are used to generate traffic and hence revenue.

Cross-subsidization. Many WEBSEs use the revenue generated from selling applications to corporations to subsidize other components of their business. This cross-subsidization

allows many online giving directories to use a model like AllCharities, which collects revenue from selling services to corporations and provides a general public web site through which individual users can make donations in which 100% of the money is passed to nonprofits. Other WEBSEs earn revenue by selling Internet solutions like web design to nonprofit organizations and use the money to support public shopping or giving directory sites. Finally, organizations like Yahoo subsidize their free online charity auction service with other revenue generating activity in the company.

COMPETITIVE DYNAMICS

The foregoing strategies are in a state of flux as the new e-Philanthropy industry creates itself. Nonetheless, some of the characteristics and challenges of competition in this arena are emerging.

Pricing Pressures

This is a thin margin business and the pressures on the commissions and fees charged are mounting. There is still a vigorous inflow of new entrants, and penetration pricing is a common strategy to gain clients and to build traffic. Perhaps an even more serious threat is the presence of nonprofit WEBSEs such as Helping.org that offer totally free services to donors and nonprofits. The same is true of dot-coms that are cross-subsidizing their giving, shopping, or click-to-donate sites from their other fee-based services. As nonprofits become more aware of their options, they will tend to choose free or lower-fee WEBSEs.

In the face of such shrinking margins, some of the Online Giving Directories oriented initially toward the individual public donors have migrated away from these services and into workplace giving, where their technology can earn somewhat higher returns. However, even there the value proposition is based on providing a less-expensive, more efficient and effective solution. Big margins are not sustainable. In the charity malls, some of the affiliated e-commerce merchants are balking at the commissions. For example, eToys announced that it will only pay a first-time bounty but not ongoing commissions. The thin margins make volume critical for profitability. In e-Philanthropy scale matters. In our survey, we found only one WEBSE that was earning profits. Many others project profitability within 2-3 years as higher volumes are achieved.

Segmentation & Specialization

Although aiming at the general online giving or shopping public is one path to scale, there will likely be room for specialization in particular segments or services. Schoolpop.com, for example, has targeted a particular giving segment interested in k-12 education. This is a large market: 110,000 schools and about 30 million families that represent potential shoppers at the WEBSE's charity mall. Other WEBSEs are focusing on environment and other special interest groups that represent sizeable segments. Geographical focus might also be possible with a tailored focus on linking donors and beneficiary organizations in particular communities. For example, iGive focuses on the

smaller nonprofit segment, whereas several others have opted for the larger well-known organizations. The key to segmentation will likely rest on the WEBSEs' abilities to add significant value in terms of specialized services to these groups.

Technological Leadership

Competitive advantage in e-Philanthropy will also come from technological leadership. Many of the WEBSEs are investing heavily in new solutions to various facets of online giving and shopping, for example, to facilitate the transaction process, ensure security, and link donors and nonprofits. David Epstein, founder of Non-Profit Shopping Mall, stated, "Technology is really important. People who have the most technologically advanced sites will be the ones who are most successful. What we all do is provide a gateway for merchants. The people who set up the easiest gateway will be the most successful." Transactional ease and satisfaction will be key to retaining shoppers and donors. Their rate of repeat transactions will be central to scaling up and brand development and to the WEBSEs' bargaining power with merchants and nonprofits. The race for technological superiority is intense and unrelenting. The risk of technological displacement is ever present. The social value-added of the e-Philanthropy revolution is embedded in its continuing technological innovation.

Disintermediation

One of the great powers of the Internet in the commercial world is to create direct links between buyers and sellers, thereby eliminating intermediaries. The same structural impact is occurring in the e-Philanthropy sector. For existing intermediaries, most saliently the United Way, the Net provides a significant challenge. The emergence of the WEBSEs targeting workplace giving could be either a threat or an opportunity for the United Way. The national United Way had to write-off \$15 million in a failed attempt to develop an Internet workplace giving product. One e-Philanthropy entrepreneur observed, "We are the devil incarnate to the United Way, because we're doing what they want to do. They wish it was them." The Net-based giving systems eliminate United Way's traditional people-intensive, pledge card system, thereby reducing costs significantly. They make workplace giving feasible for smaller firms and facilitate continual giving rather than annual drives. Furthermore, giving options for employees can be enriched by expanding the numbers and types of nonprofits and including those from beyond the immediate community. The workplace giving WEBSEs have actually begun partnering with local United Ways to convert their traditional system. Charitableway is servicing Silicon Valley United Way, enabling a 20% savings in UW's costs. Shop2Give is also designing web sites for local United Ways to take advantage of Click-to-Donate capabilities.

There is another disintermediation threat and that is to the WEBSEs themselves. The nonprofits are able and beginning to make direct links to donors through their own Web pages rather than using the WEBSEs. Most of the online giving in 1999, according to survey of 252 large nonprofits by The Chronicle of Philanthropy, came through their own websites, with about one-third using the Internet for fundraising. For example, the

American Red Cross raised \$2.8 million, Heifer Project \$1 million, Catholic Relief Services \$590,000, World Vision \$550,000, and the American Diabetes Association \$510,000. Importantly most of these online givers were first time contributors to the charity, thus revealing the power of the Internet to create new donor-nonprofit links. Furthermore, the size of the average online donation exceeded that of traditional offline donors. Goodwill Industries, after having success on eBay, began running its own online auctions, raising several hundred thousand dollars. Rather than remaining as operating intermediaries, many of the new WEBSEs have shifted toward the ASP role to enable the nonprofits to develop strong direct Internet presence. The viability of the WEBSEs will rest increasingly with their ability to add value to the nonprofits and the donors through services and reach.

Consolidation

The initial explosion of e-Philanthropy firms onto the Internet scene will be followed by a consolidation in the industry. It is already happening. Recently GreaterGood acquired the Hunger Site and CharitableWay purchased CharityGift. Scale matters and smaller players will not necessarily be able to mobilize the capital necessary to cover the marketing costs to drive traffic or the technology investments needed to create superior and innovative online services.

In addition to the pressures to gain scale, Ian Hughes, CEO and founder of eCharity.com, feels that the many different models and WEBSEs being pitched to nonprofits will lead to consolidation in the industry. He explained, "A reason for wanting to acquire a competitor may not be because they've got lots of charities signed up and they're making money, but specifically because having them out there in the marketplace actually confuses people."

Some of the little WEBSEs will be squeezed out or acquired. Nonetheless, the rate of technological innovation and bountiful creativity bubbling in the e-Philanthropy space will undoubtedly give birth to some new entrants with value-adding business models.

THE REVOLUTION'S EVOLUTION

E-Philanthropy is here to stay. It has irreversibly altered the landscape of the social capital markets. Totally new channels for connecting donors and nonprofits have been created. Flows of information and funds will continue to grow geometrically. Givers will be more informed and able to deploy their philanthropic resources more intelligently. Nonprofit organizations will accelerate along the Internet learning curve and increasingly master this new arena and strategic tool. The WEBSEs will find increasing ways of servicing donors, nonprofits, e-tailers, and other corporations. The philanthropic marketplace will become more democratic and efficient. And rather than simply providing new channels for the existing pool of philanthropic capital, the ePhilanthropy WEBSEs hold the potential to stimulate an overall increase in giving. The Revolution is here, and its evolution will further transform the philanthropic marketplace.