Environmental Assessment

Survey of E-Philanthropy Technology and Opportunities

Executive Summary

A survey of the E-Philanthropy technology (EP Tech) landscape reveals an industry experiencing significant change. The change, generated by advancing technology, economic pressure, and the transformation of workplace philanthropy, will drive three major trends:

- Growing interest and activity in consolidating market share through an industry rollup.
- Displacement of the established players as new generation technology leap frogs incumbent platforms through a technology offering that is holistic, configurable, and relevant.
- Increasing corporate demand for an enterprise EP Tech solution for new geographies as markets, revenue, suppliers, and labor rapidly shift outside North America.

These trends will create opportunities for your organization but will also highlight potential vulnerabilities as the organization weighs its options. The only certainty is that the EP Tech landscape appears poised to discard the post-war philanthropy model and your organization must determine where it can add value in this evolving arena.

Survey of Employee Engagement Technology

Industry Consolidation

The financial crisis of 2008 and the ensuing recession had a considerable impact on the EP Tech arena. Some of the largest workplace programs in the financial services sector—and some of the most productive programs in the world—witnessed major retrenchment, loss of staff, and in some cases, elimination of the program through mergers, acquisitions, and insolvency. This highly valued sector for the EP Tech companies came at a critical time for the *Established Order*—those full service providers with over a decade of experience in corporate employee engagement. By 2008, the companies in the *Established Order* already understood that their respective market share of Fortune 500 accounts did not ensure sustainable profitability; moreover, corporate clients were increasingly looking for a partner that could manage the full enterprise philanthropy portfolio using So-Lo-Mo (social, local, mobile) technology to foster a compelling user experience. This realization drove four strategic events in the EP Tech sector:

1. CreateHope and United Way of America's United eWay subsidiary merged to form Truist (a venture-backed entity with United Way participation) in July 2008;
2. JK Group's purchase by Susquehanna Growth Equity LLC in September 2010;
3. Amerigives acquisition by the American Red Cross in March 2010; and,
4. MicroEdge's recent acquisition of AngelPoints in December 2011.

The financial crisis was not the causal event, nor did it provide the rationale, but it served as timely persuasion for these events.

In the aftermath of these events, the venture/private equity funds managing Truist, JK Group and MicroEdge have pursued a highly competitive race to consolidate this niche software industry under one of their discrete brands. To date these efforts have met with limited success due to structural obstacles and a significant delta on the valuation of targeted companies. The one notable exception was the very recent acquisition of AngelPoints.

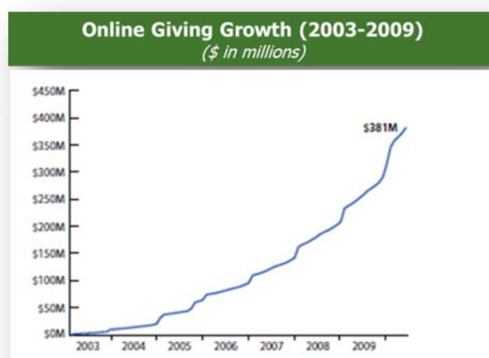
The AngelPoint acquisition is likely a model to be followed. In the midst of economic uncertainty and a market preference for full service providers, many single offering EP Tech companies—or *One Tune Techs*—will find it extremely challenging to survive independently. This challenge may spur consolidation through mergers that organize a more compelling value proposition.

These consolidation efforts will persist until scale economies and comprehensive e-philanthropy offerings are achieved. The former is necessary to achieve profitability and the latter is increasingly a market requirement. Since each of these entities is ultimately looking for an exit strategy, they will either acquire or be acquired in the next 2-5 years. That said, the consolidator may not come from the *Established Order* but may emerge from the adjacent non-profit software market—namely, Blackbaud, the dominant player in that arena—or perhaps the emerging next generation of EP Tech players.

The New Contenders

The new requirements for 21st century e-philanthropy and employee engagement create an opportunity for the fashionably late. This emerging group of young, full service providers—we've labeled *Next Gen Challengers*—are well positioned to leap frog the highly custom, patchwork of applications that characterize the legacy technology of their *Established Order* peers. The relatively late arrival (circa 2007 and later) of companies, such as YourCause and CauseCast, enabled them to benefit from more agile and efficient development methodologies, more open architecture, and the ability to incorporate social and mobile media. Consequently, these new players in the EP Tech scene have built the holistic, flexible, and integrated platforms necessary to respond to new corporate requirements.

The *Next Gen Challengers* have also benefitted from the market awareness cultivated by their older rivals. In 2000, less than 4 percent of workplace giving programs had online campaigns. By 2002 that number witnessed a dramatic rise to over 31 percent. Four years later, in 2006, that number double to 60 percent and has continued to climb.[1] On a dollar volume basis, online giving went from just over one million dollars to over $381 million by the end of 2009 (see Figure 1: Online Giving Growth). This mature market facilitated a quick ramp up for startups which has enabled them to use their marketing dollars more efficiently and focus attention on developing robust technology. Market awareness was not the only benefit to a late start. By observing the pitfalls of their elder peers, these young software firms have become more astute at refusing requests for custom code and instead have produced modular and configurable solutions supporting standard processes.



Source: Network for Good, Online Giving Study

[1] S. Greenhalgh, Campaigns at the Crossroads-Changing Direction, America's Charities, 2006, p. 20

The advantages of a mature market and flexible technology have empowered these companies to raid the Fortune 500 accounts of the *Established Order* successfully—moving venerable programs such as HP, Toyota, AT&T, State Farm, and Hilton to their fold. This challenge to the *Established Order* may become existential as one of these well-financed companies makes their own attempts to grow market share through acquisition.

Nevertheless, strong technology is not an absolute substitute for experience. Quick success in acquiring big brand accounts has exposed the limited domain expertise of these young technology companies. To manage the steep learning curve of an extraordinarily complex activity, these companies have established a flotilla of partners that handle funds processing, campaign marketing and promotion, charity vetting, regulatory compliance, multinational engagement programs and cross-border giving. The challenge of managing such a highly complex set of business processes under the klieg lights of a Fortune 500 enterprise can make any business bend under the pressure. For the small technology businesses that service this niche market the pressure can be wilting and compounded by the extraordinary risks associated with managing an equally young set of partners and processes.

Building a successful software firm is daunting enough but the additional requirements imposed on EP Tech players is a sifting process and one which adds more incentive for consolidation. Despite these formidable requirements, new entrants to the EP Tech sector (*Nascent Novelties*) arrive each quarter under the allure of a seemingly low barrier to entry. The opportunity to introduce cutting edge technology to a lagging tech market while "doing good" is the siren song for young entrepreneurs. The business odyssey often ends on the shoals of long corporate sales cycles, very competitive pricing, and complex service requirements.

It's a Small World After All

Backyard to Bangkok

While the competitive landscape is the overarching trend in the EP Tech sector, there are several more trends impacting the evolution of the space. The transformation of American brands into global corporate enterprises, with the balance of revenues and labor tilting toward distant shores, has prioritized the strategic markets on the corporate social agenda. The 2004 Indian Ocean Tsunami was a watershed moment highlighting this change. Within days if the catastrophic event, media coverage produced a surprising groundswell of demand for an enterprise-wide response to humanitarian disaster—with special emphasis on the activism of local employees throughout the world. The spontaneous reaction to this singular event has begun to institutionalize activism by local employee populations. Regional business units no longer wait for US headquarters to sanction local initiatives. Instead regional and local employees are defining new processes and roles that are more responsive to local community needs. Although all online giving to international affairs NGOs declined in 2011, due to the extraordinary surge in giving to the Haiti earthquake relief effort, giving to international NGOs in 2011 experienced a 75% increase from 2009.[2]

Aligning Social Good with Corporate Goods

Aligning business objectives with the corporate social agenda is another trend gaining momentum over the last decade. Strategic philanthropy or the drive to align the two sets of priorities has at its core a desire to make corporate community engagement a sustainable activity because it impacts the core business. In his

[2] S. MacLaughlin, J. O'Shaughnessy and A. Van Diest, The 2011 Online Giving Report, February, 2012, https://www.blackbaud.com/files/resources/downloads/WhitePaper_2011OnlineGivingReport.pdf, p.3

book, **GIVE AND TAKE**, Reynold Levy, former President of the AT&T Foundation, presents the essential argument for strategic philanthropy:

> *The best way to keep philanthropy vibrant, well regarded, and well funded in a corporation is to demonstrate its regular contributions to business success. That means that good corporate philanthropy incorporates both business interest and societal need. To find those areas of confluence requires knowing a company's businesses, as well as its customers, competitors, markets, and driving forces. And one must understand the charitable institutions and causes seeking a share of corporate wherewithal.*[3]

One of the most notable and mature examples of strategic philanthropy is American Express' ambitious grant program to preserve important tourist sites and destinations. Among its accomplishments was the central role occupied by AMEX in the rehabilitation of the Statue of Liberty for its centennial celebration. Cisco provides another near legendary example through its Cisco Networking Academies. This longstanding initiative to train a global cadre of professionals on Information and Communications Technology both ensures economic opportunity for the participants and the human capital and knowledge necessary to drive and support worldwide demand for Cisco technology.

Demographics and Diaspora

Shifting employee demographics and philanthropic behavior are also shaping how corporations evolve their employee engagement programs. Participation in traditional workplace giving campaigns continues to decline in lockstep with the shrinking donation volume received by the United Way system. The explanation for this decline is both simple (younger generation of worker prefers open choice in selecting their causes and preferred charities) and complex (the diminishing strength of the employee-employer bond also impacts the activity employees engage in the workplace). Where employers brand and sponsor open campaigns, offering employees broad choice in their selection of causes and charities, employee participation remains relatively robust.[4]

Another demographic change, the growth of Diaspora communities within the US labor force, has also influenced changes in corporate community engagement including reinforcing the earlier mentioned interest in international issues, causes, and NGOs. These diaspora communities preserve strong ties to their countries and communities of origin and their interest in these communities has bolstered the corporate argument for increasing global community investments.

Next Gen Challengers more than understand these demographic trends and have begun to do something about it. Through innovative use of social media, giving circles, and mobile technology—a fascination of the early adopting diaspora communities—these EP companies are trying to re-engage employees in community and cause activism. By offering connections and networks to the community, inside and outside the workplace, these firms have made giving and volunteering more relevant to a younger, more diverse audience.

Where Are We Headed?

Remarkably, there are examples where several of the trends are converging. In a recent article by Michael Hiltzik of the Los Angeles Times, the writer captures a few of these convergence vignettes:

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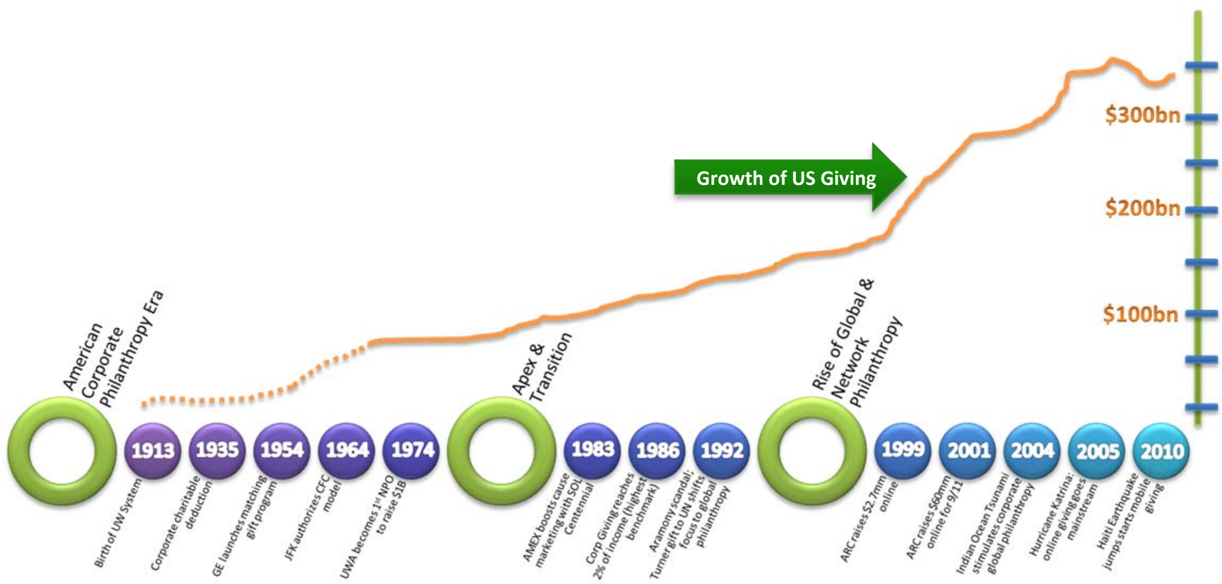
[3] T. McClimon, *The Shape of Philanthropy Yesterday and Today*. GIA Reader, Vol. 15 No. 3, Fall 2004, http://www.giarts.org/article/shape-corporate-philanthropy-yesterday-and-today
[4] Greenhalgh, p. 37

> *We're seeing a whole new approach in corporate responsibility, Charles Moore, the committee's executive director, told me. Corporations are integrating philanthropy into their business strategies, say, by supporting charitable programs serving their suppliers, customers or markets — PepsiCo paying to train the Mexican farmers who provide it with its corn syrup or Novartis delivering health education in rural India to residents who might end up buying its drugs.*[5]

While it would be difficult to predict if all of these trends will have equal impact on the future of corporate philanthropy or employee engagement, there's little doubt that they represent a major transformation of the post-war corporate philanthropy model. This post-war American model molded by the Community Chest movement and iconic brands such as GE—simultaneously generous and forward-looking but also centralized, hierarchical, and closely managed—is giving way to a new paradigm that reflects the persona of the 21st century: global, open, highly mobile, socially networked, and rooted in a capitalist system that is beginning to align social good and shareholder wealth.

FIGURE 1: EVOLUTION OF US & CORPORATE GIVING



Your Opportunities & Vulnerabilities

Opportunity in Complexity

Amidst a changing landscape within the EP Tech sector and broader trends in corporate community engagement lays opportunity for your organization. A series of interviews with several EP Tech firms revealed growing discomfort at managing technology development along with the growing complexity of the services required by corporations. For these managers Leonardo Da Vinci's words ring true: simplicity is the greatest sophistication.

This desire to focus on technology as a core competence creates unique opportunities for your organization to serve as a trusted partner in its own areas of competence. The niche industry requires consolidation and the identification of new efficiencies that ultimately delivers a comprehensive solution to

[5] *Corporations need a social conscience*, Los Angeles Times, November 6, 2011.

corporate clients. Several EP Tech executives believe part of the solution lies in finding the right partners to manage the activities outside technology development.

High on the list of these non-technical activities is international campaign management and international charity vetting. As confirmation of this assessment, YourCause, one of the leading *Next Gen Challengers*, recently announced a partnership with Ammado to "expand international giving opportunities" for its multinational accounts. Similar partnerships have been formed by the Established Order firms—Truist's alliance with Charities Aid Foundation (2009) and JK Group's partnership with GlobalGiving (2008)—but these arrangements have been fraught with competitive angst (the former) and limited capacity (the latter). In almost every instance, the fundamental corporate requirement—configurable international employee engagement programs that incorporate marketing communications, cultural awareness, charity vetting, regulatory/privacy compliance and local transaction processing—outstrips the capability of the vendor's solution.

In interviews, several of these EP Tech firms also expressed a similar requirement to identify a trusted partner to manage a comprehensive funds processing program. This need was primarily expressed by younger organizations insecure in their organization's dearth of experience or frustrated by the constraints of their current arrangements. Your organizational assets (knowledge, capacity, and brand) can make this opportunity an interesting alignment of need and capability.

Either opportunity may present your organization with an array of options. As a trusted partner for EP Tech firms, your organization might provide the necessary infrastructure for international employee engagement programs from developing charity identification and vetting to tax efficient processing and disbursements. As an independent offering for the corporate market, your organization might offer international campaign management solutions—campaign kits and consultative support for launching, promoting, and measuring the effectiveness of international corporate community engagement programs. These "kits" would address language, cultural, regulatory, privacy, tax efficiency, transaction type preferences, and necessary roles for the management of global-regional-local initiatives.

Alternatively, if your organization has managed high volume transactions, your organization might consider leveraging this critical domain expertise to support the role of fiscal agent. The fiscal agent essentially acts as a third party administrator that can support a branded, standardized, and global charitable transaction infrastructure managing the flow of funds within and across borders as well as across media (i.e., cash, inkind, digital, or mobile).

While there are active players in each of these activities today, no organization to date has matured its processes or laid credible claim to a definitive solution. Since neither of these opportunities is mutually exclusive, metrics-based pilot projects may help identify the best and most viable options.

Avoiding the Dead Zone

An analysis of the changes happening in the EP Tech sector might lure an organization with related capabilities and corporate relationships to consider throwing its hat in the ring. This decision must be carefully weighed. While your organization might possess a good number of the assets and competencies needed to succeed, the effort necessary to succeed in the EP Tech sector is often compared to an ascent of Everest. The analogy may be hyperbole but the industry shares one common attribute with Everest: a fabled "dead zone" littered with failed business plans of CharityWave and Kintera.

It's likely your organization can handle complex corporate requirements—an issue that has bedeviled many young EP Tech firms. Notwithstanding this obvious strength, the challenge arrives when this capability represents just one ingredient in the long recipe to build a world class EP tech platform for the corporate market. The challenge comes with the other ingredients: resources, management focus, and capital investment. And this challenge is daunting. The industry's financial statements speak louder than words. In the past decade, JK Group is the only company to manage a consistently scalable and profitable enterprise in the EP Tech sector.

Alternatively, ignoring the sector's opportunities would be foolhardy. The continued decline of workplace giving, driven by the factors discussed earlier, requires attention to identifying new strategic options. The growth of cross-border and global philanthropy may grant your organization opportunities to reposition its assets and leverage its relationships to adjust successfully.