Are Charities Spying on You?
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In a recessionary climate where many donors are giving less to charity, what separates the winners in philanthropy from the also-rans? As senior writer Anne Kadet reveals, the secret to success is often a surprisingly intrusive amount of research into a donor’s financial life. In “Are Charities Spying on You?,” Kadet investigates the fast-growing role of “predictive analytics,” examining an industry that lets fund-raisers learn everything from a potential donor’s salary history to the size of his swimming pool. As the article reveals, nearly half of all charities now rely on analytic software tools, and they’re using them to land some of their biggest fish—Brown University, for example, says that about 60 percent of its $100,000-level donors were tracked down using such data mining.

As widespread as these practices are, nonprofits are often unwilling to talk about them. As one fund-raiser admitted, the idea “creeps a lot of people out.” Kadet’s piece makes it clear why that’s so: After all, thanks to predictive analytics, hospitals can now figure out which of their patients are the wealthiest and most receptive to a postoperative fund-raising pitch, while other cash-generating whizzes know which of their donors collect antiques or live alone. Because some of these practices bear a stigma, even among many professional fundraisers, it took painstaking effort for Kadet to overcome the reluctance of many sources and get a detailed look at their operations.

Kadet first found out about the use of donor-research software via a tip from a friend, and since *SmartMoney* readers are exactly the kind of affluent professionals that tend to get a hard sell from the nonprofit sector, the topic cried out for a closer look. Over a period of 11 weeks, Kadet talked to dozens of consultants who advise and track the performance of the fund-raising business—it was their reports and data, not usually shared with the public, that gave her a sense of the scope of the business. It took time for Kadet to build trust within this closely guarded network, but Kadet eventually persuaded half a dozen fund-raisers to share their huge databases with her and to speak with remarkable candor about their philosophy and tactics, and about the potential downsides of their work. Kadet began to write as she neared the end of her reporting; all told, writing and editing took about three weeks.

The resulting article offers an unprecedented look at the behind-the-scenes business of charitable work, as well as a parable about the erosion of privacy in the Internet age, when even do-gooders seldom hesitate to gather and exploit sensitive information. “Are Charities Spying on You?” also gives SmartMoney readers another tool that helps them decide which organizations deserve their charitable dollars. Still, the piece remains an even-handed, level-headed read; a piece that could have been written as a jeremiad became, in Kadet’s hands, a nuanced work of business journalism with thought-provoking ethical overtones.
Are Charities Spying On You?

To find the best donors, nonprofits are quietly sifting through people’s salary histories, shopping habits—even satellite photos of their homes. How data mining has become the fund-raiser’s top tool.

Whether a patient comes in for a gall bladder operation or to have a baby, the routine remains the same for staff at Sharp HealthCare hospitals in San Diego. The front desk checks insurance records to make sure the bills get paid on time. Nurses take vitals and tag their charges with a bar-coded wristband that helps them avoid treatment snafus. And behind the scenes, the fund-raising staff runs scans on the assets of each patient. The goal? To find out whether they’re “megalrich,” “wealthy” or merely “comfortable.”

While the folks checking in don’t know it, the nonprofit hospital chain is hunting for prospective donors. Armed with powerful data-mining
software, they screen hundreds of admissions records each morning to find a handful of wealthy patients who’ve shown prior interest in the hospital. Those who make the cut may enjoy a bedside visit from a “patient relations director” who offers concierge services. Extra pillow? Free parking passes for visiting friends? The director will make it happen. It’s all about building a relationship at the point of service, says foundation CEO Bill Littlejohn, and it has proven to be effective: “We’ve gotten many letters and gifts from people who said, ‘It was so nice you stopped by.’”

When your favorite nonprofit isn’t busy saving the whales, chances are it’s making a serious behind-the-scenes effort to know you better—and using increasingly sophisticated technology to do so. Whether it’s the local museum or an international relief group, a charity’s prospect-research staff can survey your salary history, scan your LinkedIn connections or even use satellite images to eyeball the size of your swimming pool. And if it’s really on the ball, it’s keeping better tabs on your financial life than you are. Should your stock holdings double, your friendly fund-raiser can get an e-mail alert prompting her to make an impromptu call.

Nonprofits say these practices help them focus their time and resources on those who are most likely to give, while reducing the awkward mishaps that drive donors crazy—no more solicitations of the deceased, one company promises. And in most cases, nonprofits rely on publicly available data such as SEC filings. Peter Hansen, vice president of development at the New Jersey Performing Arts Center, says that when board members brought up privacy issues at a recent meeting, he assured them he only uses public information: “We’re not digging through your garbage.” Still, donors might be startled to learn how much data has been compiled by charities across the nation and how it’s used. In their effort to ask the right person for the right-size gift, nonprofits can digitally sniff out everything from the names of a prospect’s kids to whether she gives to her church.

Donor research isn’t new, of course. In a bygone era, fund-raising sleuths spent days at the library and county clerk’s office, scribbling facts on index cards. More recently, major charities have spent large sums on donor data to prepare for capital campaigns. But now, for as little as $3,000 a year, even smaller nonprofits—like the Cape Cod Commercial Hook Fishermen’s Association—can use databases that estimate everything from a donor’s net worth to the size of her mortgage. According to nonprofit marketing-research firm Campbell Rinker, nearly half of all charities now use these tools to research donors.

These practices only expanded during the recession. WealthEngine, one of the largest prospect-research outfits, with some 2,000 nonprofit clients, says its revenue has grown 56 percent since 2008. Why? Nonprofits are hoping to cut costs. According to donor-data firm Target Analytics, average donations dropped 5 percent last year, forcing some charities to cut fund-raising staff or reduce mailings. In good times, a fund-raiser might chat up everyone who wrote a $1,000 check, says Alicia Kozma, director of development for the Crohn’s and Colitis Foundation of America: “That’s just not realistic anymore.” And most fund-raisers say the technology works. Elizabeth Crabtree, director of prospect development at Brown University, says six out of 10 donors who made a major gift ($100,000 or more) in its current campaign were initially identified using predictive analytics and data mining. But Daniel Borochoff, president of the American Institute for Philanthropy, says there’s a good reason most nonprofits keep these research efforts behind closed doors: “It creeps a lot of people out.”
STEVE FROELICH IS SOMETHING OF A FUND-RAISING WHIZ KID. WHILE MOST NONPROFITS STRUGGLE WITH FALLING REVENUE, THE 32-YEAR-OLD VICE PRESIDENT OF DIRECT RESPONSE FOR THE AMERICAN SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS JUST KEEPS RAISING MORE MONEY—THANKS, HE SAYS, TO DONOR DATA. HIS MIDTOWN MANHATTAN OFFICE, WITH ITS CONCRETE FLOORS AND FROSTED GLASS, IS PLASTERED WITH CHARTS AND SPREADSHEETS (ALONG WITH THE DOG AND KITTY CALENDARS) AND HE WORKS IN FRONT OF AN OVERSIZE DOUBLE SCREEN.

ON A RECENT MORNING, HE DISPLAYED THE RESULTS OF A HERCULEAN SCIENCE PROJECT: AN ANALYSIS OF 77 MILLION BITS OF DATA COLLECTED ON 425,000 ASPCA DONORS, RANGING FROM THEIR AGE AND HOBBIES TO WHETHER THEY OWN A CD PLAYER. BY CORRELATING DATA WITH DONOR-GIVING PATTERNS, FROELICH LEARNED THAT FOLKS WHO GIVE TO THE ASPCA ARE MORE LIKELY TO COLLECT ANTIQUES, READ SCIENCE FICTION AND LIVE ALONE. HE KNOWS WHICH DONORS RESPOND TO A STRAIGHTFORWARD E-MAIL, WHO REQUIRES A HEARTFELT PHONE APPEAL AND WHO MIGHT WANT TO REMEMBER THE ASPCA IN HER WILL. HE EVEN KNOWS ON WHICH NIGHT OF THE WEEK A GIVEN DONOR IS MOST LIKELY TO PICK UP THE PHONE. THE RESULT? DONATIONS HAVE QUADRUPLED OVER THE PAST FIVE YEARS, TO MORE THAN $80 MILLION.

PREDICTIVE ANALYTICS—THE SCIENCE OF IDENTIFYING AND CULTIVATING NEW DONORS BY ANALYZING CHARACTERISTICS OF EXISTING DONORS—HAS BECOME INDISPENSABLE TO MANY NONPROFITS. IT HELPED THEM DETERMINE WHO WILL SEND A $100 CHECK AT CHRISTMAS AND WHO MIGHT GIVE $50 MILLION FOR THE NEW MEMORIAL WING. THE PATTERNS THAT EMERGE CAN BE SURPRISING. LAWRENCE HENZE, MANAGING DIRECTOR OF TARGET ANALYTICS, A BLACKBAUD FIRM, LEARNED THAT LIBERAL ARTS MAJORS ARE MORE LIKELY THAN BUSINESS GRADS TO REMEMBER THEIR ALMA MATER IN THEIR WILL. AND WHEN NONPROFITS ADD COMMERCIAL DATA TO THE MIX, EVEN FINER PATTERNS EMERGE. DON AUSTIN, ANALYTICS DIRECTOR AT INFOGROUP NONPROFIT, SAYS FOLKS WHO DONATE TO FOOD BANKS ARE MORE LIKELY TO LIVE IN AN APARTMENT, CARRY CREDIT CARD DEBT AND PLAY THE STOCK MARKET.

OF COURSE, IDENTIFYING A NEW PROSPECT IS JUST THE FIRST STEP. IT CAN TAKE YEARS OF PARTIES, TOURS AND DINNERS BEFORE A TARGET BECOMES A BIG-TICKET DONOR. BUT THE RISING TIDE OF DATA ON HAND CAN SPEED THE GETTING-TO-KNOW-YOU PROCESS. SUPPOSE A FUND-RAISER GETS A CANDIDATE’S BUSINESS CARD AT A COCKTAIL PARTY. THE NEXT MORNING HE CAN DOWNLOAD AN INSTANT REPORT ON HIS NEW PROSPECT FROM DATA PROVIDERS LIKE BLACKBAUD OR WEALTHENGINE. THE SUMMARY STARTS WITH A SIMPLE NUMERICAL SCORE ASSESSING THE PROSPECT’S NET WORTH AND WHETHER SHE’S LIKELY TO DONATE. BUT THE DETAILS IN THESE REPORTS, WHICH CAN RUN PAST 10 PAGES FOR A TOP EXECUTIVE, CAN INCLUDE A PROSPECT’S CAREER HISTORY AND EDUCATION, STOCK HOLDINGS, PENSION, CHARITABLE-GIVING HISTORY AND CAMPAIGN CONTRIBUTIONS. IF SHE OWNS A PLANE OR A BOAT, IT’S IN THERE, ALONG WITH THE NAMES OF FAMILY MEMBERS AND BOARD CRONIES.

THERE’S OFTEN A DEEP POOL OF DATA AVAILABLE ABOUT A PROSPECT’S HOME, INCLUDING ITS ASSESSED VALUE, NUMBER OF BATHROOMS AND THE TYPE OF SHINGLES ON THE ROOF—ALONG WITH SATELLITE PHOTOS THAT CAN REVEAL ITS SWANK FACTOR. MARGARET KING, A DREXEL HILL, PA., RESEARCHER WHO COMPiles Dossiers FOR NONPROFIT CLIENTS (TYPICAL FEE: $150 TO $500 PER NAME) SAYS THE BIRD’S-EYE VIEW RECENTLY HELPED HER DISCOVER THAT A PHILADELPHIA PROSPECT’S YARD BORDERED A CITY PARK—INDICATING A HIGH PROPERTY VALUE. SHE MIGHT ALSO USE THE IMAGES TO SEE IF OWNERS HAVE BUILT NEW STRUCTURES ON THEIR LAND: “YOU CAN’T FIND THAT IN OTHER RECORDS.”

SOME FUND-RAISERS SAY THEY AVOID PROSPECT RESEARCH BECAUSE IT CREATES AWKWARD SITUATIONS. “LESS IS MORE,” SAYS GARY
Laermer, chief development officer at the YMCA of New York. “I’ve never had anyone say, ‘How did you know that about me?’” Still, these tools can give fund-raisers an edge, especially when it comes to timing the next move. At the University of New Haven, for example, Advancement Services Director Carl Pitruzzello uses custom alerts to track news on the Web about potential alumni donors; he’ll send a friendly card if someone gets a promotion. He also receives daily alerts that let him know when donors who are officers at publicly traded companies buy or sell stock. A “liquidity event” wouldn’t necessarily trigger a phone call, he says, but he’d file the information away for later. “It’s all about building a relationship,” he says.

There are limits to what this technology can accomplish, of course. King, the Pennsylvania researcher, says wealth reports can scramble facts or come up empty on a low-profile prospect—she still treks to the library when she hits a rare dead end. Another problem? The temptation to substitute the data feed for a real relationship. “The best prospect researcher isn’t the guy sitting behind the computer, but the development officer who goes out and talks to the prospect,” says Target Analytics senior consultant David Lamb.

At the Hospital of the University of Pennsylvania, many doctors wear pins that read “ask me about my research.” It’s a conversation starter with a purpose: These doctors are hunting for donors. The hospital recently sent 165 of its top physicians to train with Advancement Resources, an Iowa company that has taught fund-raising to doctors and nurses at 45 academic hospitals, including the Mayo Clinic. Physicians learn how to identify a potential donor, talk up their work and gauge the patient’s interest. Once a doctor spots a likely prospect, he can turn her over to the fund-raising department, which can access the patient’s financial profile to see if she’s a worthy target. The program has tripled the flow of large gifts, and Paul Mischler, the hospital’s senior executive director of development, says it’s gratifying for patients as well: “It can be a natural, rewarding part of the healing process.”

Aggressive fund-raising has become standard procedure at hospitals, clinics and even hospices, as medical institutions try to make up for higher costs and dwindling insurance reimbursements. No one tracks the statistics, but the practice of screening admission records to find rich patients is “pretty common,” says Kathy Renzetti, spokesperson for the Association for Healthcare Philanthropy. And once the hospital determines you’re a VIP, the perks roll in. At Penn, there are 1,200 donors and volunteers who get bumped to the front of the line for appointments with specialists and get special assistance with billing mix-ups. At San Diego’s Sharp HealthCare, major donors receive a card printed with staffers’ pager numbers, to ensure they receive top service around the clock.

Hospitals say that grateful patients and their families are their only natural donor constituency; without the help of such programs, it would be impossible to identify everyone who has the inclination and ability to make a big gift. Still, some question the practices. Arthur Caplan, a bioethicist at the University
Why Your Mailbox Runneth Over

Their research resources may belong to the Internet age, but most charities still rely heavily on a distinctly low-tech fund-raising tool: direct mail. Indeed, nonprofits spent $1.8 billion on direct-mail solicitations last year. We asked experts to explain some of the strategy behind the carpet bombing.

MAILBOX OVERLOAD: When Pasadena, Calif., marketing consultancy Russ Reid Co. asked donors how often they’d like to hear from their favorite charity, the typical answer was four times a year. But in follow-up tests, the firm found that fund-raising campaigns with 12 to 18 mailings a year were twice as profitable as those based on just three to six mailings.

“It more than justifies the extra mailings and possible irritation as profitable as those based on just three to six mailings.”

TWO YEARS AGO TERRY NARUM, A MINOT, N.D., human-resources consultant, got an alarming notice in the mail. It said that a thief in Charleston, S.C., had broken into a car and stolen a laptop containing Narum’s Social Security number, his date of birth and odd details about him, such as the fact that he had attended the 1990 homecoming game at his alma mater, the University of North Dakota. Turns out, the alumni association had sent its entire donor database to a Charleston consultant to fix a glitch. “I was very, very disappointed,” Narum says. He never imagined his own university might be tracking his moves—or sharing the information with a seemingly careless third party. (The university says it no longer includes Social Security numbers in its database.)

Nonprofits say donors should welcome the data gathering. “Every nonprofit spends money on fund-raising; this helps us spend it wisely,” says Brown University’s Crabtree. Still, most donors have no idea how much data can be obtained about them, or what may be inferred by tying it all together, says Borochoff, the American Institute of Philanthropy president. And as Narum learned, nonprofits aren’t immune to the data breaches that plague every industry. Recent years have brought several cases of donor-data exposure, including an ex-employee hacking incident at the United Way of Miami-Dade in Florida and an episode at the University of Southern California, where the records of 6,300 hospital patients were accidentally posted online by a company doing a donor-prospecting project. (The university says it terminated its relationship with the vendor.)

Whether or not they like it, donors shouldn’t expect the data collection to stop. There are virtually no limits to the snooping that nonprofits can do, as long as they follow the law. (They can’t, for instance, tap your phone or search your trash.) The Association of Prospect Researchers for Advancement’s privacy guidelines say that nonprofits should seek “only information that is needed for effective fund-raising,” but they offer no specific restrictions. Donors, meanwhile, are often in the dark: Charity watchdog GuideStar says only a third of nonprofits post a formal privacy policy on their Web sites.

Going forward, information aggregators are exploring new technological frontiers. Prospect-research firm WealthEngine recently befeeted up its donor reports with links to profiles on social-networking sites like Facebook and LinkedIn, while Blackbaud, which has 22,000 nonprofit clients, has launched a new app that allows fund-raisers to access donor information from their iPhones. But for now the power remains in the prospect’s corner—there’s still no fund-raising technology that can win a donor’s friendship and trust. Says Kozma, of the Crohn’s and Colitis Foundation: “Having the data won’t get you the gift.”

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