Nonprofits and Electronic Payments

A Market Segment's Unique Needs Are Not Being Met

By Brian Todd

A quarter of a trillion dollars changes hands every year in the nonprofit space. But according to Douglas Schoenberg, CEO of SofterWare Inc., a developer of support software designed for the nonprofit industry, the electronic transaction industry essentially treats nonprofits like retail and consumer clients. That means the special needs of the nonprofit industry are not being addressed by ISOs and transaction processors.

Donors are not like shoppers, Schoenberg says, and nonprofits are not like retail merchants. Unfortunately, the electronic transaction industry makes nonprofits shoehorn their needs into retail solutions. The downside is that while nonprofits are using electronic transaction services such as debit, credit, automated clearing house (ACH) transactions and electronic checks, those services are not being used to maximize giving.

The Nonprofit Big Picture

According to the National Center for Charitable Statistics at the Urban Institute, there are about 1.4 million charitable organizations registered as 501(c)(3) organizations with the IRS, the vast majority of which are public charities. About half of the country's 350,000 churches are registered as public nonprofits, and some private charities are registered as 501(c)(3) organizations. In 2005, the latest year with full reporting, nonprofits raked in $260 billion, with about 43 percent of that money going to churches.

"While churches are nonprofits, they are kind of a niche unto themselves," Schoenberg says.

The rest of that money, roughly $148 billion, was given by individuals, corporations and foundations to public and private nonprofits of all shapes and sizes. Schoenberg says the majority of nonprofits are very small, while the pubic charities that collect more than $5 million per year make up less than 10 percent of all organizations in the industry.

"The thing that is really important to understand is it is not a uniform marketplace," Schoenberg says. "You have health service organizations, universities and higher education, religious organizations that are not churches, all kinds of things. And what they are has a bearing on how they raise money and their transactions processing."

While there is no data on how many use electronic transactions as part of their fund-raising mechanism, Schoenberg says it would probably be correct to say that the majority of nonprofits take some form of electronic payment.

Where the Problems Exist

To say that the nonprofit sector is being underserved is a bit misleading, Schoenberg says. While most nonprofits that need electronic transactions are signed up with a processor, the solutions they have been sold are not tailored to nonprofits' needs.

"Credit card organizations don't understand their needs," Schoenberg says. "Nonprofits are about as far from retail as you get."

But the retail business model is the one the electronic transaction industry is largely based upon, and that leads to nonprofits' trying to fit their square needs into the round hole of retail solutions.

"One of the problems is that nonprofits have been sold some inappropriate solutions," Schoenberg says. "Donors don't come to make donations at the door. Most transactions are card-not-present transactions, so an organization that has a credit card terminal and maybe does reoccurring donations, they are storing that information manually and punching it in once a month. That's not efficient and not secure."

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However, nonprofit radio station STAR 88.3 in Fort Wayne, Ind., is an example of a nonprofit whose needs are being met by a custom solution.

"I handle processing our online pledges through Weblink, and I process the monthly EFTs as well, and I think both work wonderfully," says Leesa Huston, the station's administrative services director. STAR 88.3's online pledge page is a payment portal customized for the station's fundraising needs.

But while nonprofits are starting to show up with some solutions that fit their needs, those solutions are not within the mainstream of the credit card industry. Typically, there are three common areas of electronic transaction processing that are being inappropriately served in the nonprofit sector.

The first is the recurring transaction that is made when someone wants to pledge a monthly amount. While retail transaction processing can handle recurring transactions, the problem many nonprofits face is third-party billing.

In other words, to handle transactions efficiently—not entering them manually each month or quarter—nonprofits will use an outside party to store card data and charge the transaction at the appropriate time. Unfortunately, those transactions often show up on a receipt under the name of the third-party institution. So the donor sees a charge under the name of some third party rather than "Save the Sea Otter." The result is donor confusion and chargebacks.

While this may be a problem in retail circles as well, it can be devastating for nonprofits, for which donor satisfaction is of primary importance.

The second is third-party processors, which are a big hitch for nonprofits that use simple solutions on the Web. Schoenberg cites PayPal as an example of a transaction processing application within the nonprofit sector. PayPal transactions will not show up under the name of the nonprofit organization, meaning many donors are left with a bad taste from making online donations.

Schoenberg says that Web-based giving is prevalent, but not the biggest avenue of donations, except perhaps for disaster relief. But, because Web solutions aren't geared toward nonprofits, it's not something that's integrated highly into most nonprofits' donation programs.

The third is the Web shopping cart. Most Web tools for electronic transactions are built around the shopping-cart model. "Shopping carts have little relevance to nonprofits," Schoenberg says. "Nonprofits have few items to sell other than occasional premiums, like public TV stuff."

Rather than selling goods or services, nonprofits have other interactions with donors that must be handled along with their transaction processing. For example, nonprofits are more interested in donor or membership levels, or gifts in tribute to other people. "They have to jury-rig a shopping cart or use PayPal," Schoenberg says, "but that's not ideal."

Send Me a Letter

The main avenue for nonprofit donations, Schoenberg says, is the tried-and-true solicitation letter. More often than not, these requests are filled with a check or a credit card number for a one-time donation. As with almost all electronic transactions gathered by nonprofits, these are transactions made without benefit of a credit card or the cardholder at the time the transaction is made.

This means nonprofits are paying the price in transaction rates for the way they do business. "Nonprofits are being lumped into the same rate category as other card-not-present transactions that are high risk," says Schoenberg.

But nonprofit card-not-present transactions are different from retail transactions over the phone or Internet. Schoenberg notes that identity thieves usually don't steal credit information for the purpose of donating to their favorite nonprofit, and fraud and chargeback records back that up. "It is really a high-quality transaction, but they are being classified with much more challenging transactions," Schoenberg says. "I would love to have a conversation with the people at Visa or MasterCard about that."

Fixing the System

The first step in better serving the nonprofit sector, Schoenberg says, is understanding the types of transactions that are common and unique to the industry. Mainly, this consists of card-not-present transactions and transactions that do not fit the mold of traditional retail transactions, such as recurring transactions.

Next, the electronic transaction industry has to understand that the electronic transaction processing needs to be accompanied with tracking and notification in a format that looks less like a mailed receipt and more like a letter expressing thanks that is convenient for tax purposes.

"All nonprofits need some kind of system for tracking their constituents and the transactions they've been giving," says Schoenberg, whose company helps fulfill that need for nonprofits. "You have to be aware of the donor experience and put donors at ease.

Equally important, Schoenberg says, is understanding the lower risk involved in nonprofit transactions. "Among our customer base, chargeback transactions are few and far between. Something like two for every 10,000 transactions."

Chargebacks only become a problem when there is confusion about the transaction. That mainly occurs when a third party is used to hold and process transaction data for a nonprofit, and its name (rather than the name of the nonprofit with which the donor is familiar) shows up on the donor's bill.

"I think that those pitfalls that cause organizations to not get donations are the most serious ones," Schoenberg says. "Not having the donor feel comfortable because of security concerns is serious."

Why Nonprofits Matter

Nonprofits can form a loyal customer base. Schoenberg says most nonprofits realize that donors like the convenience of using credit cards to make donations—and with many credit cards tied to rewards programs, donors understand that they get a little back when they give.

Further, donations made by credit card generally bring in more money than donations through other avenues, and fulfillment rates are higher than if donors simply pledge to donate at a later time.

The important thing for the industry to understand, Schoenberg says, is that credit card transactions are part of a holistic approach to funds gathering for nonprofit organizations. With solutions that better fit this unique sector, the electronic transaction industry could help move a larger piece of the nonprofit pie. ***TT***