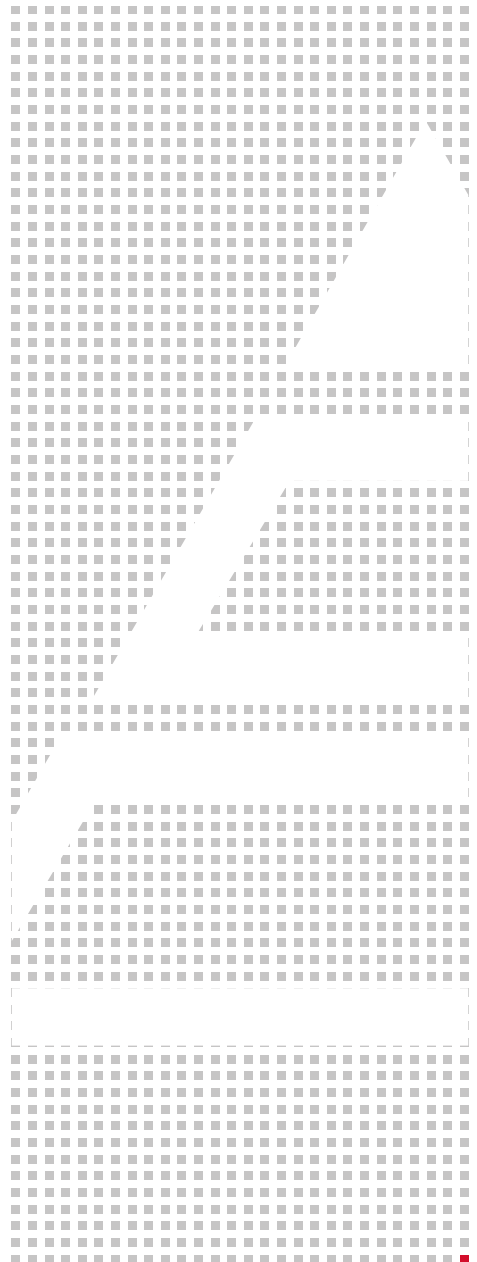


RESEARCH BRIEFING

Philanthropy: The Biggest Income Opportunity You're Probably Missing



In today's challenging health care environment, **philanthropy** is one of the most important—and most promising—revenue streams.

Hospitals and health systems continue to face unprecedented pressure on operational revenue streams as the population ages out of private insurance, medical volumes displace more profitable surgeries, and federal spending on health care declines. Most other mechanisms for supplementing revenue are short-lived, not impactful enough, or too risky.

A growing number of forward-looking executives have been investing in their philanthropy infrastructure to improve the institution's finances and fund capital and program investments—and it's well worth the look. Why? The potential for remarkable return.

| Even at median performance, philanthropy generates about three and a half dollars for every dollar spent.

Six Levers for Generating Health System Revenues

Volumes

Hospital demand is not expected to increase like it has in the past, and volumes will deflate over the long term through population health initiatives.

Prices

We're seeing downward pressure on reimbursement from all payers. The ability to secure price increases is declining and being conditioned on performance.

Loans

Many hospitals' bond ratings have been lowered, and borrowing rates have not been favorable. Debt also puts additional pressure on future finances.

Financial Investments

Stocks and other financial investments are subject to market volatility.

New Businesses

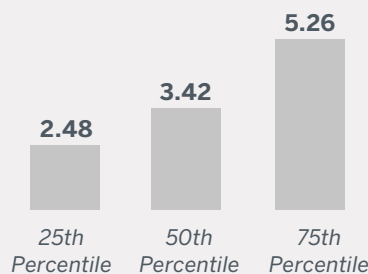
Becoming a payer or launching innovative business opportunities are feasible only for the largest organizations, require substantial up-front investment, and can be quite risky.

Philanthropy

Philanthropy has traditionally provided a high return, and the hospital and health care fundraising sector is expected to grow.

Triple Your Investment on Average

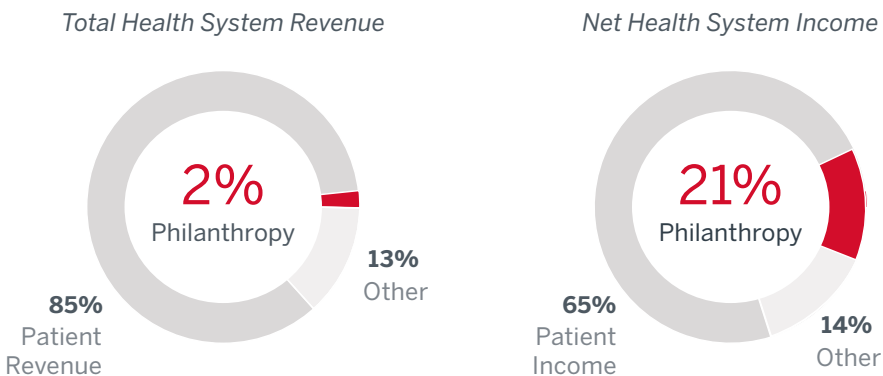
Philanthropy ROI by Percentile



High-performing foundations account for **more than 20% of net income** of their health systems.

You should assess the impact of philanthropy by its share of net income, rather than its total revenue. This shift in thinking demonstrates the true business merit of philanthropy. For example, the \$361 million recently raised by one foundation accounted for just 2% of overall health system revenue, but over a fifth of its net income.

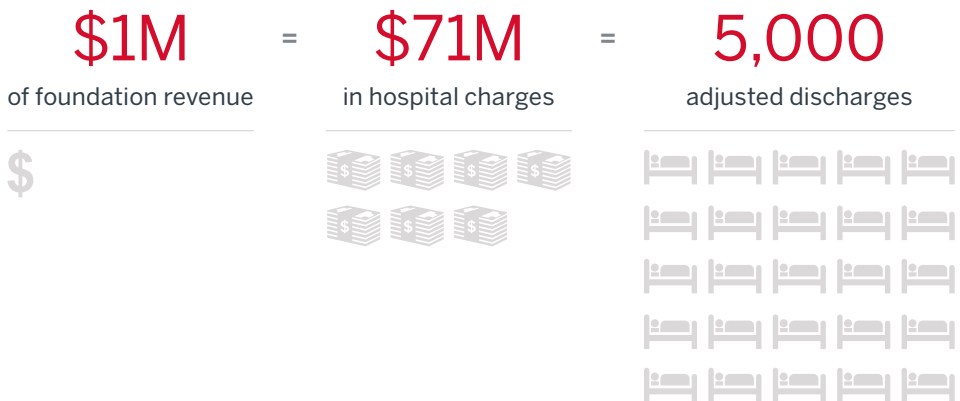
Revenue and Income at Mayo Health System, by Source



Philanthropy is **less resource-intensive** than operational revenue streams.

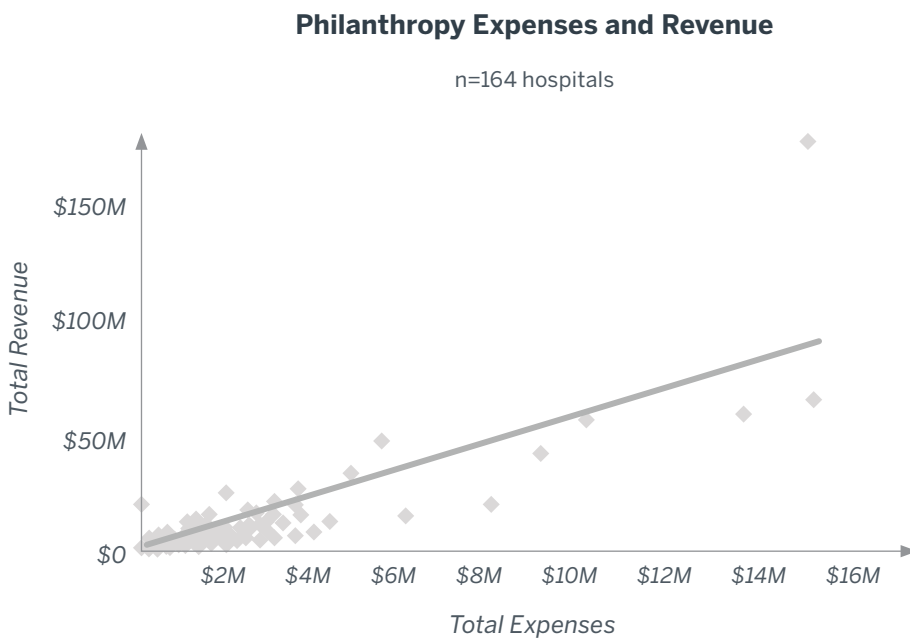
A dollar generated by philanthropy takes less organization-wide effort, resources, and space to produce. At one health system, it would take more than \$70 million in charges, or about five thousand inpatients (a staggering volume increase in today's market) to produce the same \$1 million that its foundation secures.

Baptist Health Foundation Revenue Expressed in Operational Terms



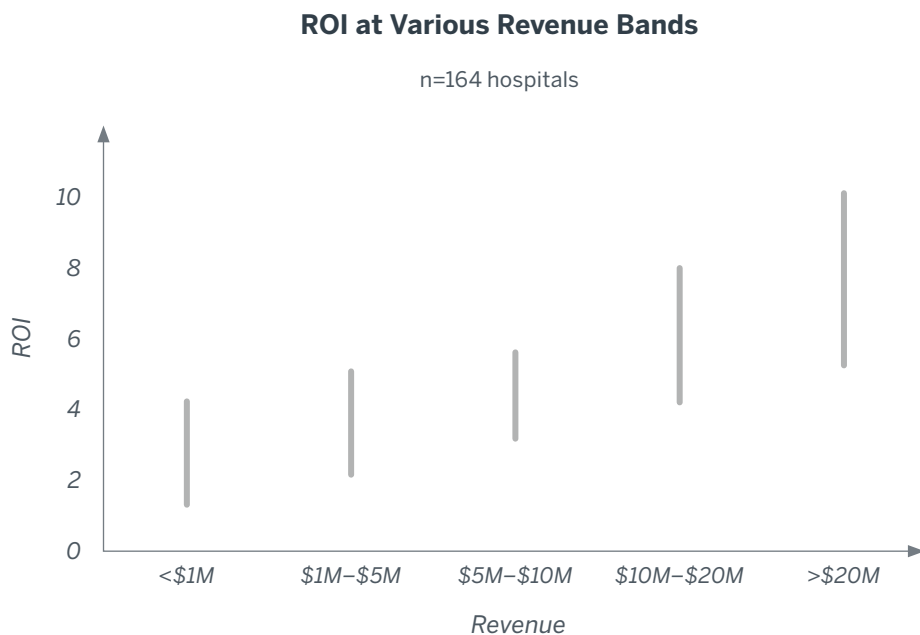
To increase the revenue potential of philanthropy, **invest more—not less.**

The adage “money begets money” holds true in philanthropy—foundations and development offices with higher budgets tend to generate more revenue. While how much money you raise also depends on the wealth and generosity of your local population, no one foundation or development office has fully tapped the philanthropic capacity of its market.



There is **plenty of opportunity** to elevate philanthropy's return on investment.

No matter what your philanthropy budget is, your foundation or development office can improve its financial impact on your institution. How? By focusing on raising more dollars, not by cutting costs. Our data show that philanthropy's ROI is more closely tied to how much revenue you generate—not by how much you spend—and that higher revenues tend to generate higher returns.



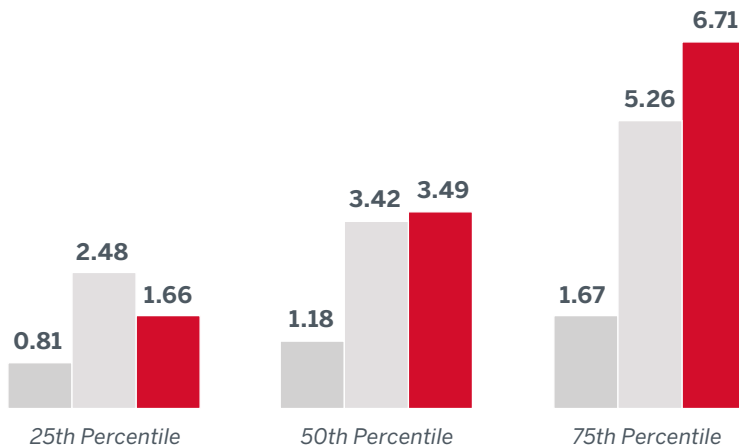
If you want to be a top performer, focus on **major gifts**.

Outdated perspectives of philanthropy associate fundraising only with large-scale, public events like galas and golf tournaments. While these events can play a meaningful role, the key to maximizing revenue and return on investment is a focus on securing large gifts from individual donors.

Philanthropy Return on Investment

By Fundraising Strategy

n=164 hospitals



Here's **what executives can do** to help their philanthropy enterprise maximize return.

Your development office or foundation needs your advocacy and collaboration. Executive and clinician partnerships with philanthropy inspire the largest gifts and ensure that funds support the most critical strategic priorities.

Participate in Donor Relations

Cultivate relationships with donors, prospective donors, and community at large.

Philanthropy Leadership Council resources:

- Expanding the Patient Pipeline
- Enduring Relationships

Partner on Strategy

Integrate philanthropy into health system strategy development and investment.

Philanthropy Leadership Council resources:

- Integrating Philanthropy into Health System Business Planning
- Philanthropy for Care Transformation

Promote Culture of Philanthropy

Establish participation in philanthropy as an organizational priority.

Philanthropy Leadership Council resources:

- Philanthropy-Physician Partnership Toolkit



Visit: advisory.com/plc
for access to these studies.

LEGAL CAVEAT

The Advisory Board Company has made efforts to verify the accuracy of the information it provides to members. This report relies on data obtained from many sources, however, and The Advisory Board Company cannot guarantee the accuracy of the information provided or any analysis based thereon. In addition, The Advisory Board Company is not in the business of giving legal, medical, accounting, or other professional advice, and its reports should not be construed as professional advice. In particular, members should not rely on any legal commentary in this report as a basis for action, or assume that any tactics described herein would be permitted by applicable law or appropriate for a given member's situation. Members are advised to consult with appropriate professionals concerning legal, medical, tax, or accounting issues, before implementing any of these tactics. Neither The Advisory Board Company nor its officers, directors, trustees, employees and agents shall be liable for any claims, liabilities, or expenses relating to (a) any errors or omissions in this report, whether caused by The Advisory Board Company or any of its employees or agents, or sources or other third parties, (b) any recommendation or graded ranking by The Advisory Board Company, or (c) failure of member and its employees and agents to abide by the terms set forth herein.

Project Director

Cynthia Schaal

Contributing Consultants

Katie Stratton

Jennie Light

Executive Director

Steven Berkow, JD

Project Editor

Beth Knight

Designer

Kim Dixson

Sources

Philanthropy Leadership Council
Performance Benchmarking Initiative,
interviews, and analysis.



2445 M Street NW, Washington DC 20037
P 202.266.5600 | F 202.266.5700

advisory.com