EXHIBIT A

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The Impact of Data Restrictions on Fundraising for Charitable & Nonprofit Institutions

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Executive Summary

Many people mistakenly assume that only businesses use personal identifying information (PII) for marketing or commercial purposes. While consumer-oriented direct marketers are overwhelmingly the largest users of PII or "third party data," there are other non-commercial, but no less important, users of these same information products like nonprofits and law enforcement agencies.

There is an emerging body of research attempting to quantify both the benefits consumers enjoy as a result of the free flow of information, and the potential costs resulting from data restrictions that would impede information flows.[1] By and large, these studies focus on how business enterprises may be affected by a restriction on the use of third party data for commercial purposes. This paper fills an important research gap by addressing the likely consequences from an "opt-in" data restriction to one segment of smaller users of PII – nonprofit charitable organizations.

The nonprofit charitable organizations examined in this study include major national and smaller local entities. They are engaged in various missions, including, among others, feeding the hungry, providing clothes and shelter to the poor, conducting medical research, supplying healthcare assistance for veterans, and teaching illiterate children and adults how to read. Nationally, such organizations collected almost $80 billion of the $190 billion total of charitable giving in 1999 using direct mail and telephone solicitation campaigns, spending approximately 41 cents to raise each dollar of donations.[2] This cost includes all

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[1] Prior to 1999, most cost-benefit analysis of the privacy issue was qualitative, and typically involved a heavy dose of ideological bias. Only over the past few years have relatively more objective quantitative cost-benefit studies emerged, most of which focus on the likely costs arising from proposed data restrictions. For a representative sample of such studies, see footnote 35.

[2] The sources for data in this summary are provided in the main report. This figure does not include revenues from person-to-person campaigns, or revenues from sales and other operations. As such, administrative costs as a percentage of total revenues is substantially below

the labor, administration, printing, postage, and other expenses associated with a typical fundraising campaign.

It is estimated, however, that should an "opt-in" style third party data restriction become law, administrative costs for charitable organizations would increase by 30 percent, and would force charities to spend 53 cents to raise a dollar of donations due to the lower response rates. To raise a constant amount of revenue with lower response rates, direct mail costs would have to increase by $4.1 billion. Assuming a similar impact on telephone solicitations, these telephone solicitation costs would increase by another $5.9 billion.

The approximately $65 billion of person-to-person revenues will also be affected by an opt-in data restriction. Because charitable organizations heavily rely on the use of PII to help them determine how much to ask for from potential donors, inefficient information will also likely reduce overall donations. In fact, if the efficiency of person-to-person fundraising were reduced by only 10%, as this study estimates, an additional $6.5 billion dollars would be lost due to asking for either too much or too little. In sum, should an opt-in data restriction become law, approximately $16.5 billion currently allocated to charitable programs will be spent on additional marketing costs.

Legislators in many states do understand the dependence of charitable organizations upon PII. To prevent charitable organizations from financial duress as a result of data restrictions designed to enhance consumer privacy, lawmakers in many states have exempted a broad swath of charities in their proposals for opt-in legislation. Unfortunately, even with an exemption, the baby is thrown out with the bath water. Because large information service providers like Acxiom and Equifax derive less than **2 percent** of their total revenues from sales to nonprofits and law enforcement agencies, their business models would

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41%, and normally falls in the 20% to 30% range. See Lautman, Kay Partney. *Direct Marketing for Nonprofits: Essential Techniques for the New Era, Gaithersburg, Maryland. Aspen 2001.*

not be viable under a strict data restriction akin to an opt-in regime.[3] Thus, should an opt-in provision become law, it would no longer be economical for these information service providers to compile the types of PII that charitable institutions currently use as the single largest source of revenue for information service providers would have dried up.

Section I – Introduction.

a. Background

Charitable giving plays a vital role in our society. It feeds the hungry, shelters and clothes the exposed, cures the sick, educates our youth, nurtures wildlife and the environment, and improves communities. In 1999, total charitable giving was $190 billion, representing 2.1 percent of the gross domestic product;[4] about 70 percent of households make charitable contributions.[5]

Although many people are inherently generous, charitable organizations must reach out to current and prospective donors to stimulate giving. To reach out in a cost-effective manner, these organizations target their fundraising efforts to the people who are most likely to give. To determine which people are most likely to contribute, charities collect, purchase, and analyze information about groups of potential donors to assess their propensity and capacity to give. Following the analysis, charitable organizations reach out to potential donors through direct mail, person-to-person solicitations, telemarketing, and other media like print and television.

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[3] ISEC survey of national information aggregators conducted during December, 2001 through January, 2002. This included the top 5 information aggregators by annual revenue. While the average from this group was considerably less than 2%, this figure is used to compensate for outliers given the small sample size.

[4] *Giving USA 2000*, AAFRC Trust for Philanthropy, Inc., p.18.

[5] *The New Nonprofit Almanac IN BRIEF*, Independent Sector, p.3.

This report analyzes how potential restrictions on the use of information on prospective donors would affect the ability of nonprofit organizations to raise money. Our study is based on the results of interviewing nonprofit fundraising experts from all sectors of the nonprofit world, analyzing their fundraising data, and reviewing publicly available industry data.

In our interviews with nonprofit fundraising experts, we discussed how charitable organizations raise funds, how they use consumer data in the fundraising process, and how their organizations would be impacted by restrictions on the use of information. Fifteen organizations provided detailed data from which we could calculate the impact that information restrictions would have on their organizations and similar ones. And although the data from these 15 respondents are not random in a strict statistical sense, they do appear to be fairly representative and widely distributed with respect to critical variables. Some of the organizations that provided data raise large amounts of money through charitable contributions, some raise small amounts, and some are in between. Those in the survey ranged from $1.4 million to over $100 million per annum. Some receive as much as 90 percent of their contributions through mail solicitations, while others raised as little as 40 percent through direct mail. And some were very sophisticated while others were less so. Overall, they accounted for almost half a billion dollars a year in charitable contributions.

b. Industry Characterization

Nonprofit organizations include hospitals, nursing and personal care facilities, national disease groups, higher education organizations, elementary and secondary schools, libraries, research institutes, individual and family service organizations, job training institutions, child day care centers, churches, museums, botanical gardens, volunteer fire companies, foundations, societies, conservation groups, charities, and many other organizations in every community. This nonprofit sector is sometimes referred to as the independent

sector, the third sector, or the voluntary sector. These organizations qualify under sections 501(c)(3) and 501(c)(4) of the IRS tax code. 501(c)(3) and 501(c)(4) organizations include religious, educational, charitable, scientific, literary, and social welfare organizations.

The nonprofit sector is an important part of the U.S. economy, encompassing a large number of organizations and a substantial number of jobs. Table 1, Summary of Nonprofit Organizations, presents the number of nonprofit organizations and the number of paid employees. In 1998, nonprofits accounted for 1.23 million (approximately 4.4 percent) of the 27.7 million businesses, tax-exempt organization, and governmental entities in the United States and employed nearly 11 million people.

Table 1. Summary of Nonprofit Organizations

Statistic	1996	1997	1998
Number of Nonprofit Organizations in U.S.[a]	1.11 million (estimated)	1.19 million	1.23 million
Paid Employees (full- and part-time)[b]	10.3 million (estimated)	10.6 million	10.9 million

a *The New Nonprofit Almanac IN BRIEF*, Independent Sector, p.7.
b Ibid, p.8.

c. Private Contributions and Fundraising

In recent years, private contributions to nonprofit organizations have been growing and totaled about $190 billion in 1999, the last year for which aggregate industry data are currently available. As Table 2 shows, total private contributions grew 13 percent from 1997 to 1998 and 9 percent from 1998 to 1999. Also, as it shows, charitable giving by individuals, which includes bequests, is the largest component of private contributions, accounting for about 85 percent of total private contributions in 1997, 1998, and 1999.

Table 2. Summary of Total Private Contributions by Source[a]
($ in Billions)

	1997	1998	1999
Total Contributions	$153.77	$174.36	$190.16
By Source:			
Individuals	$131.23	$147.70	$159.32
Foundations	13.92	17.01	19.81
Corporations	8.62	9.65	11.02

a *Giving USA 2000.* AAFRC Trust for Philanthropy, p.136. Detail may not sum to total due to rounding.

As mentioned above, most individuals do not make these contributions without prompting. Rather, contributions typically are the result of a solicitation -- usually a direct mail, telephone, or person-to-person contact.[6] Nonprofit organizations with wealthy and committed constituencies (e.g., universities with committed alumni, churches with dedicated members, hospitals with grateful patients) receive most of their funds from major gifts, which typically result from person-to-person solicitations.[7] As Table 3 shows, over one-third of all nonprofit contributions from individuals is from person-to-person solicitations. This is not surprising given that it takes a large number of $20 donations from a direct-mail campaign to raise the equivalent of one $10 million major gift. Organizations without such constituencies (e.g., food banks, public television) depend more heavily on direct mail and telephone solicitations.

[6] Individuals donate to charitable organizations for a variety of reasons. According to a recent study, 25 percent of respondents indicated that they donated in response to a specific request. This supports the conventional wisdom that asking for a gift is the essential ingredient of fundraising. Furthermore, individuals feeling strongly about the nonprofits' mission is the most compelling reason to donate. This suggests the importance of effectively communicating the mission. Appendix A, Why Individuals Give, presents several other reasons why individuals donate and the proportion of the total population that indicated the reason.

[7] Throughout this report, person-to-person refers to personal relationships between an individual and a charitable organization where a large gift is solicited. Section II discusses person-to-person solicitation.

Table 3. Nonprofit Contributions from Individuals by Type of Solicitation in 2000[a]
($ in Billions)

Solicitation Type	Contribution
Person-to-Person[b]	$65.3
Telephone	47.1
Direct Mail	32.4
Newspaper	7.5
Magazine	6.1
Television	5.9
Radio	2.6
Other	3.6
Total[b]	$170.6

a *2000-2001 DMA Economic Impact Study*, consumer market data (excludes business-to-business market data). Conducted for The Direct Marketing Association by the DRI/WEFA Group. DRI•WEFA is a leading global provider of economic and financial data, market analysis and forecasting, and analytical consulting services. DRI•WEFA professional expertise spans over 120 industries, 150 countries, and a full array of analytical disciplines. With offices around the world, DRI•WEFA is instrumental in assisting CEOs, money managers, economists, strategic planners, management consultants, and government policy makers in over 3000 organizations in refining their strategic and tactical decisions.

b Total individual contributions in 2000 are estimated by inflating the 1999 figure of $159.32 billion by 7.1 percent, the compounded, annual growth rate in individual contributions from 1980 through 1999. The difference of $65.3 billion between the total of $170.6 billion and the consumer market data is the estimated amount of person-to-person donations in 2000.

Table 4 presents total private contributions by recipient for 1997 through 1999. Religious organizations, which received the largest share (approximately 43 percent) of total private contributions in 1999, generate most of their gifts from tithing and person-to-person contacts, including donations during services. Giving to education represented 14 percent of total private contributions in 1999. Universities, colleges, and private schools' primary mode of fundraising is person-to-person solicitations.

Table 4. Summary of Total Private Contributions by Recipient[a]
($ in Billions)

	1997	1998	1999
Total Contributions	$153.77	$174.36	$190.16
By Recipient:			
Religion	$72.69	$77.49	$81.78
Education	22.00	25.32	27.46
Health	14.03	16.89	17.95
Human Services	12.66	16.08	17.36
Arts, Culture, Humanities	10.62	10.53	11.07
Society Benefit	8.38	10.86	10.94
Environment/Wildlife	4.09	5.25	5.83
Other	9.29	11.93	17.76

a *Giving USA 2000.* AAFRC Trust for Philanthropy, p. 138. Detail may not sum to total due to rounding.

A recent study found that more than 80 percent of university fundraising comes from just ten percent of gifts.[8] And incredibly, over the last five years, the three largest gifts from living individuals plus the three largest bequests to research, masters, liberal arts, and specialized educational institutions accounted for between 33 percent and 50 percent of all gifts to these institutions.[9] Universities and private schools also use direct mail and telephone campaigns to both raise money and identify dedicated alumni who should be solicited for a major gift.

Giving to health-related organizations accounted for 9 percent of total private contributions in 1999. Health-related organizations receive significant donations through direct mail campaigns and through person-to-person solicitations with many hospitals raising most of their donations from major gifts from "grateful patients."

Giving to human-service organizations, arts, culture, and humanities, societal benefit organizations, and environment and wildlife organizations

[8] "Top Donors Dominate Big Educational Capital Campaigns," The Chronicle of Philanthropy, http://www.philanthropy.com/premium/articles/v12/i05/05002801.htm, registration required.
[9] *Voluntary Support of Education 2000*, Council for Aid to Education, http://www.cae.org/vse/vse2000/t16.htm.

collectively accounted for 24 percent of total private contributions in 1999. These organizations request charitable donations through all types of solicitations although they are more dependent on direct mail and telephone solicitations than religious organizations, educational institutions, and hospitals.

d. Potential Restrictions on the Use of Information

Trying to balance their interest in being able to efficiently raise money with the privacy interests of individuals, most charitable organizations have long abided by privacy policies that require informing donors about what information they are collecting and how they will use it, as well as providing donors with a choice as to the disclosure of information. In fact, one charity to whom we spoke cited a Direct Mail and Marketing Association privacy guideline they followed over 20 years ago: "[e]very list owner who sells, exchanges, or rents lists should see to it that each individual on the list is informed of those practices, and should offer an option to have the individual's name deleted when rentals or purchases are made." This type of "opt-out" policy, which allows the use of information unless the donor indicates otherwise, is generally how nonprofits currently protect the privacy of donors.

Some privacy advocates are promoting legislation that would require organizations to implement "opt-in" policies, which would only allow the use of information if the donor provides affirmative consent. Three potential opt-in schemes are third party sharing opt-in, affiliate sharing opt-in, and blanket opt-in. *Third party sharing opt-in* would require affirmative consent before organizations could disclose personal information to third parties. This would deny charities access to data used to analyze their housefile, as well as lists of potential donors. *Affiliate sharing opt-in* would require affirmative consent before organizations could share data with affiliates or third parties. *Blanket opt-in* would require affirmative consent for internal uses of personal information as well as sharing with affiliates or third parties. For instance, hospitals would not be able to

disclose the names of long-time patients to fundraisers seeking to raise revenues for a new cancer ward or pediatric clinic for the hospital.

This study examines a scenario that we believe would occur if third party opt-in legislation – one of the least restrictive data regimes -- were enacted. Given the experience of companies who have tried to obtain affirmative consent from their consumers to use personal information, we believe that third party sharing opt-in would virtually eliminate the use of external information (e.g., member lists from other nonprofit organizations and demographic data) by nonprofit organizations.

For purposes of conceptual clarity, this study considers an "opt-in" or affirmative consent approach as tantamount to a data flow restriction. It is well established that gaining affirmative consent from consumers is a difficult and costly proposition irrespective of firm size.

For instance, US West (now Qwest Communications), one of the largest and most trusted telecommunications companies in America, recently conducted an affirmative consent trial using call centers and direct mail. The results of this trial are indicative of the difficulties associated with using "opt-in" as a general model. In the US West trial, outbound telemarketing obtained an "opt-in" rate of 29 percent among residential subscribers (targeting a small highly favorable subset of the total subscriber base) and cost $20.66 per positive response. Direct mail fared much worse, receiving a positive response rate between 5 and 11 percent among residential subscribers (depending on the presence and magnitude of an incentive) and cost between $29.32 and $34.32 per positive response. [10]

[10] US West provided *Ex Parte* Comments on September 9, 1997 to the Federal Communications Commission in *CC Docket No. 96-115, CC Docket No. 96-149*, and *WT Docket No. 96-162*, highlighting the results from the CPNI affirmative consent trials they ran. They concluded that "opt-in" was not a viable model as it was too costly, too difficult and too time intensive.

There is good reason to believe that charities seeking affirmative consent from their donors would confront similar costs. To begin with, explaining to donors why their information is shared with charities and other nonprofits is a labor intensive, time-consuming process. This is compounded by the fact that the benefit is not direct, but rather derived from reciprocal access to donor lists from other charities. Further, those charities without the household name recognition of U.S. West may, in fact, face a greater barrier to obtaining a donor's affirmative consent. For example, a well-known charity such as the United Way tends to be more trusted than a small local charitable organization. Donors and prospective donors will be more likely to permit the larger, more well known charities that they trust use and share their personal information that smaller, less known charities.

An opt-in style third-party data restriction would still allow nonprofits to use information that they collect in the course of transactions with its own members. This information usually includes name, mailing address, telephone number, date of charitable contribution, amount of contribution, as well as demographic data. The cost of a more restrictive privacy regime would be significantly higher than the cost estimated in this study.

e. Report Organization

Section II describes how charitable institutions use personal information to raise money. It focuses on person-to-person and direct mail fundraising. Section III describes the impact of information restrictions on nonprofit fundraising and quantifies the extent to which a third-party sharing opt-in scheme would reduce the amount of funds that nonprofit organizations would have available to provide services to their constituencies.

Section II - How Charities Use Donor Information to Raise Money

In order to contact potential donors, charitable organizations require information about them. At the most fundamental level, organizations require addresses to contact potential donors through the mail and phone numbers to call them. Most nonprofits also use additional information to target their fundraising communications to individuals or groups of individuals that are likely to give. In this section, we describe the major methods that nonprofits use to raise funds and how they use information in each method.

a. Person-to-Person Solicitations

Person-to-person solicitations are an extremely important source of charitable contributions for two reasons. These solicitations bring in more funds than any other fundraising method, approximately $65 billion in 2000.[11] Also, for those organizations that are lucky enough to have a wealthy constituency that is willing to make major gifts to the organization, it is the most efficient way to raise money (with fundraising costs of less than ten cents for every dollar of revenue generated).[12] A fundraising consultant described the efficiency of person-to-person solicitations as follows:

> When a few phone calls and a lunch meeting with a wealthy donor can produce a multi-million-dollar gift or bequest, fundraising costs are minimal when expressed as a percentage of the proceeds.[13]

While donations of ten dollars or even a hundred dollars may come in response to a mail solicitation, gifts of ten thousand dollars, ten million dollars, or more, typically only come in response to person-to-person solicitations. The actual solicitation, however, is usually the third stage in the typical process.

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[11] See Table 3, Nonprofit Contributions from Individuals by Type of Solicitation in 2000.
[12] For a pertinent, informative article on person-to-person fundraising, see "Chasing Money," *The Washingtonian*, July 2001. The less-than-ten-cents-per-dollar figure comes from several fundraisers focused on person-to-person solicitations.
[13] Mal Warwick, *Raising Money by Mail*, p. 26.

Prospective donors are first identified and researched to determine their capacity for giving. Then, when seeking large donations, these potential donors are cultivated to determine and enhance their willingness to give. Only after these stages does the actual solicitation occur.

Prospect identification and research is the first step in the personal solicitation process. Charitable organizations with different predominant channels of fundraising identify prospects in different ways. Organizations with wealthy and committed constituencies such as universities and private schools usually identify prospects using the knowledge of alumni and development office personnel or through self-identification. For example, colleges and universities hold sessions in which alumni sort through lists of classmates and rate the giving potential of friends and acquaintances based on their jobs, houses, lifestyles, and families. The alumni themselves provide other information: alum magazines provide a rich flow of information (e.g., employment and job changes, vacations, schools for children), all of which can be used to assess ability to give. Private schools also run rating sessions. Their development offices often look at application and other information provided by the parents of their students to determine the parents' professions or addresses.

For those judged to have the potential to make significant gifts, institutions gather external information to further determine the capability of these individuals to give. Sources of information specific to a particular individual include property records and assessments; filings with the Securities and Exchange Commission (SEC) like10-K forms[14] and prospectuses for initial public offerings, both of which list salaries and stock holdings of highly compensated employees; information on insider trading; and tax information. Sources from which inferences about an individual's capability to give may be drawn include trade journal articles showing

[14] Form 10-K is the annual report that most reporting companies file with the SEC. It provides a comprehensive overview of the registrant's business. The report must be filed within 90 days after the end of the company's fiscal year.

the average compensation of partners at law and accounting firms and Census Bureau information showing average income within a census block.

Even nonprofits whose predominant source of fundraising is direct mail also often rely on person-to-person solicitations. Board members and prominent members of the community (if the charity is local rather than national in scope) may be asked to contribute in this manner. And while these nonprofits may also run rating sessions to identify prospects in the community, responses to direct mail also provide another source of prospects for larger gifts.

Many direct mail solicitations have check boxes for the amount of gift with the largest check box amount for the donation rarely exceeding $500 or $1,000. Donors who give $500 or $1,000 or more are excellent prospects for major gifts because their response indicates both a capability and willingness to give. Most nonprofits call these donors not only to express their gratitude but also to begin a refinement of the prospect's ability and willingness to contribute even more. And research is conducted on these prospects in the ways described above.

Prospect cultivation usually follows prospect identification and research. In this phase of the process, nonprofits try to determine and enhance the prospect's willingness to give. To do so, charitable organizations build and maintain relationships with prospects. Recognizing their importance, many nonprofits have full time staff dedicated to maintaining these relationships. The extent and the duration of the cultivation depend on the prospective donor's ability to give. Not surprisingly, those with the ability to give millions of dollars are usually cultivated longer and more thoroughly than those with the ability to give thousands of dollars.

During cultivation, nonprofits ensure that prospects understand the mission of the charity. Prospects may be invited to dinners or other social events. They may be visited by friends who are affiliated with the nonprofit, by

board members, or by the president or other important nonprofit officials. Prospects may be asked to serve on committees of the charity or even on the board since those people actively participating in an organization are likely to consider it important and are therefore more likely to make sizable contributions. At the same time the prospect is being cultivated, the organization is also trying to determine the size of the target request.

Conventional fundraising wisdom is that prospective donors will give more if asked for a concrete amount; thus, for example, they should be asked "Would you consider a gift of $10,000 to our charity?" and never "Would you consider a gift to our charity?" Conventional wisdom also believes that asking for the right amount of money increases the amount the prospect will give. Specifically, almost all fund raisers believe that prospective donors very seldom give more than they are asked to give and that asking them for a "stretch" gift often produces one. On the other hand, if they are asked to stretch too far, they will ignore the requested amount and give less than they would have had a more realistic amount been requested. Thus, information pertaining to a donor's capability and willingness to contribute is critical in determining the amount of "the ask."

b. Direct Mail Fundraising

Many charitable organizations rely upon direct mail as their primary method for raising funds. For this reason, direct mail generated individual contributions of $32.4 billion in 2000.[15] This type of fundraising is very effective for collecting a large sum of money in modest amounts, a necessity for most nonprofits especially human-service organizations, societal benefit organizations, and environment and wildlife organizations, which do not often have a large group of benefactors donating large sums of money. While more expensive than person-to-person solicitations, mature direct mail programs often raise a dollar of

[15] See Table 3, Nonprofit Contributions from Individuals by Type of Solicitation in 2000.

revenue for every 30 cents spent on fundraising. Below, we discuss how direct mail fundraisers use external information to acquire new donors and re-solicit existing donors.

Acquiring New Donors

Most charitable organizations acquire new donors by sending direct mail to prospects. Nonprofits prospect because they will be able to provide more services if they increase their number of donors and therefore increase the amount of contributions they receive. They also do so because each year, some donors who had previously contributed stop contributing.[16] House lists of active donors experience attrition or turnover and, without replacement, would eventually decay to a very small number of donors. One organization to which we have spoken experiences an attrition rate of 20 percent per year. For mature programs, attrition rates as high as 35 percent are common.[17] If charitable organizations do not constantly replenish their list of active donors, they will not be able to maintain the level of services they currently provide. Over time, nonprofits will "go out of business" if they cannot attract new donors.

Finally, charitable organizations prospect because some prospects identify themselves through their response as having both the willingness and the means to make major gifts through person-to-person solicitations. As a nonprofit fundraising consultant noted in his book, "direct mail can help you identify, recruit, cultivate, and educate that small, vital group of prospective major donors who are capable of making a very big difference."[18] Several nonprofit fundraisers told us that it is typical in responses from prospecting solicitations to receive a small number of unexpectedly large gifts. Thus, when the average gift is around

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[16] Shifting interests, changing fortunes, illness, and death are some reasons why some donors cease donating. For a discussion of the deterioration of housefiles for nonprofits, see: Edwards, Richard L. *Building a Strong Foundation: Fundraising for Nonprofits*. 1997; Dove, Kent E. *Conducting a Successful Capital Campaign: A Comprehensive Fundraising Guide for Nonprofit Organizations*, 1988.

[17] Mal Warwick, *Raising Money by Mail*, p. 69.

$20, a very small number of gifts may be over $500. Donors like these are considered prime candidates for contributing even larger sums of money. Nonprofits typically call these donors to thank them personally, and try to begin a cultivation process, which they hope will eventually lead to even more significant donations.

Charitable organizations typically use two types of external information to prospect. First, they obtain mailing lists of individuals who are likely to give to the organization. For example, a list that contains names of high-income individuals will almost certainly provide a higher response rate and a higher average gift than a list of low-income individuals. Also, a list of those who have made recent charitable contributions is more likely to provide greater success than a list of those who have not made recent charitable contributions. The best prospect lists are typically donor lists for other nonprofits. Similar to their commercial counterparts, nonprofit organizations obtain these lists by either trading their lists or by renting them from list brokers or data aggregators.[19]

Second, charitable organizations purchase demographic information about their prospects and target mailings only to the demographic groups that are most likely to contribute. This secondary screening can increase the revenue generated by a prospect mailing by a factor of two.[20]

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[18] Warwick, *Op Cit.*, p. 14.

[19] An exemption for nonprofits would reduce the impact on charities, but only somewhat so. Without third party data, charities will not be able to run diagnostics on their housefile with the same degree of accuracy, nor would they have the ability to append data to their housefile to identify additional common attributes of current donors, larger donors, donors that stopped giving, and non-donors. For these reasons, an exemption does not fully prevent charities from additional financial burdens associated with an opt-in data restriction.

[20] Case study data from ISEC/Nonprofit Federation 2002 survey of charitable organizations.

Even after targeting in these ways, the response rate from prospecting is relatively low. In general, response rates from prospect mailings typically range from 0.5 to 2.5 percent;[21] Although one nonprofit organization to which we spoke achieves a response rate from prospecting of 4.7 percent.

Furthermore, mailings to prospects (even to targeted lists) cost more than they return in contributions; charitable organizations spending a dollar prospecting typically receive only 70 to 80 cents in revenue.[22] But over the donation life cycle, prospecting increases net contributions rather than costing money. This is because response rates from existing donors are much higher than those from the prospect list. Once a prospect has been converted to a donor, the contribution from additional solicitations far outweighs the initial cost of prospecting.

Donor Re-Solicitation

Once an individual makes a contribution, he is added to the organization's "house list" of existing donors. These donors represent the primary source of funds for nonprofits because donors on the house list are more likely to donate in the future than the average prospect who has not donated before. However, even with a company's house list, it is often too expensive to contact the entire list because some past donors may not be interested in making another donation.

The primary information used to target mailings to the house list is generated internally. Specifically, some nonprofits target their fundraising efforts using the "RFM" technique, which is to mail to those donors who have given

[21] Ibid, p. 15.
[22] Ibid. Also, we found this to be the case for the nonprofit organizations to which we spoke.

recently (R), frequently (F), and large amounts of money (M).[23] If people have consistently donated over a long period of time and have donated relatively large amounts, then they are likely to donate large amounts again. More sophisticated fundraisers may use predictive modeling to target their mailings.

Not surprisingly, the profitability of mailings to existing donors is much higher than that for prospect mailings. Mailings to existing donors typically result in response rates of between 6 and 12 percent (and, our survey found, sometimes reach 20 percent) with a dollar raised for approximately every 25 cents spent.[24]

c. Telephone Fundraising

Soliciting charitable contributions by telephone raises more money than any other form of fund raising except person-to-person solicitation. In general, however, telephone solicitation practices tend to vary by scope and reach of the charitable organization. Large, nationally recognized charitable organizations, for instance, almost never engage in cold call straight charitable solicitations while smaller, regional and local charitable organizations make such calls routinely where permissible.

Typically, the larger, national charitable organizations call prior supporters – both active donors and lapsed donors – and ask for donations to support their mission. Because they may not have a visible presence in a particular community, these organizations have found it extremely difficult to acquire new donors by making cold calls.

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[23] "RFM" have proven to be excellent predictors of future transactional behavior. See, for example, David Shepard Associates, *The New Direct Marketing*, p. 12, generally, and Mal Warwick, *Raising Money by Mail*, pp. 75-76.

[24] Mal Warwick, *Raising Money by Mail,* p. 16. The direct mail fundraisers to whom we spoke achieved response rates of 20 percent on some mailings to existing donors.

Smaller nonprofit charities, on the other hand, with a clear mission and a visible presence in the region or locality in which they are based have traditionally enjoyed more success acquiring new donors by prospecting; that is making cold calls to members of the communities in which they operate. It is noteworthy that even cold calls involve the use of third party data as lists of potential donors from within a community are either purchased from or compiled by third parties including information service providers such as Acxiom and Equifax. Indeed, 100% of respondents to the ISEC/Nonprofit Federation survey indicated in follow-up conversations that they purchased lists from third parties for purposes of telephone fundraising. In that sense, then, these calls are not truly "cold"; they are not randomly placed but instead are placed to pre-selected higher probability donors based on various criteria including past giving habits, amount of previous contributions, type of organization donated to in the past, age, income, and other categories of information.

A second, less known form of cold call solicitations frequently used by larger, nationally known charitable organizations is a "neighbor-to-neighbor" (N2N) campaign. These campaigns are referred to in the parlance of the industry as "active" campaigns. In short, a large, national charitable organization will call a prospective donor – Ms. Jane Doe, for example -- and ask her to go door-to-door and/or write letters to her friends that she feels would be interested in either contributing to the organization or providing additional leads for further prospecting efforts. Again, as with the cold calls for straight charitable appeals discussed above, the neighbor-to-neighbor campaigns also make use of third party data, although much more so.

N2N campaigns utilize complex data models designed to identify those individuals most likely to participate in an active campaign. Experian does the modeling for one major national charitable organization interviewed by ISEC for this study. This involves a technique known as a "radius process." In short, for a particular geographic point, all the households within a half-mile radius are

assessed to determine their willingness and ability to give to a particular charity. Labels for each likely donor are generated and sent to an individual living within that geographic area who has agreed to generate solicitation letters to send on behalf of the charity.

In the past, the identification of those individual's most likely to lead a neighbor-to-neighbor campaign, as well as those most likely to make a donation, involved a model using public record data and credit information – motor vehicle and driver's license data, aggregated credit statistics and credit header data – as the predominant predictors. The enactment of new laws, such as the Drivers Privacy Protection Act (DPPA) and the Gramm Leach Bliley Act (GLB), deny charitable organizations the use of this data for purposes of fundraising. Information service providers, however, have been able to salvage neighbor-to-neighbor campaigns for charities through the use of proprietary modeling that uses self-reported data and transactional data to compensate for lost public record and credit history information.

While somewhat unorthodox, there is ample evidence that N2N campaigns are an extremely effective method for acquiring new donors. Indeed, a major national human services charitable organization interviewed by ISEC indicated that, of the $40 million in total donations received during 2000, approximately $8 million, or 20 percent, was raised through neighbor-to-neighbor campaigns. Among others, Easter Seals, March of Dimes, the American Heart Association, the American Lung Association, and the American Cancer Society use neighbor-to-neighbor campaigns. A third party opt-in data restriction, however, would severely degrade the efficiency of the new model used for N2N campaigns, and would most likely deny charities nationwide a valuable fundraising tool. The following section analyzes how each of the major fundraising techniques employed by charitable organizations would be impacted by an "opt-in" data regime.

Section III – The Impact of Data Restrictions.

This report analyzes restrictions that we expect would result from third-party sharing opt-in legislation. As previously mentioned, this opt-in scheme would result in a practical ban on the use of external information. This is consistent with empirical evidence from existing opt-in data restrictions, such as the Shelby amendment to the DPPA that saw states discontinue the practice of selling driver's license and motor vehicle data – and lose millions of dollars of annual revenue as a result – rather than face a potential class action lawsuit as a result of a data transmission error. This study also assesses the impact of a third-party opt-in data restriction that exempts nonprofit institutions. Such a regime would allow the continued sharing of donor lists among charities, but would eliminate other third-party data used to analyze housefile lists and compile lists of potential donors.

If prospective legislation considers a more restrictive opt-in scheme for internal and external data, then fundamental business practices would change. While analyzing this considerable change is beyond the scope of this report, we are certain that the impacts of a more restrictive regime would be more extensive than under the less restrictive regime presented below. For example, if legislation significantly impacted the ability of organizations to use internally generated information on existing donors, nonprofits would have to eternally prospect, a certainly losing proposition.

a. Analysis of Opt-In for External Data – Direct Mail Campaigns

If charitable organizations cannot use external data to identify prospects that are likely to give, then the only way to prospect would be to send untargeted mailings to a random list of prospects. Untargeted, random mailings would achieve much lower response rates than the targeted prospect mailings currently

being sent by most nonprofits. Hence, to receive the same amount of donations from prospects, charitable organizations would need to significantly increase their mailings to prospects and, therefore, their fundraising cost to achieve a specified revenue goal. This is the scenario we analyze below.

It is worth noting, however, that increasing mailing size is not the only possible way that a nonprofit could respond to restrictions on the use of external information. Another potential scenario would be for nonprofit organizations to keep fundraising costs constant. In this scenario, organizations' donor bases would erode over time, eventually forcing them out of operation or at least into a smaller operation. As one nonprofit fundraiser described this situation:

> Here begins a downward spiral – costs to fundraise increase because efficiency drops. Fewer donors are acquired each year because of increased costs. Fewer donors are in the house file for renewal income. In the time of just a few years, net income from fundraising would drop about 40% and that would translate into about 40% fewer children helped by our work.

To estimate the increase in fundraising costs that would be required to keep fundraising revenue constant under a third-party sharing opt-in scheme, we analyzed campaign data from fifteen nonprofit organizations that raise significant funds through direct mail. As Table 5 shows, we expect that these nonprofits would need to increase their fundraising costs for direct mail from 41 cents per dollar raised to at least 53 cents per dollar of revenue, significantly reducing the amount of revenue that these organizations can spend on services for their communities.

Table 5. Impact of Restriction on Use of External Information on Fundraising Costs

Type of Mailing	Cost as a Percentage of Direct Mail Fundraising Revenue (Current Use of Information)	Cost as a Percentage of Direct Mail Fundraising Revenue (No Ext. Information)
Prospect Mailing	17%	29%
House List Mailing	24	24
Total Mailing	41	53

Source: ISEC/Nonprofit Federation survey of charitable organizations (August – October, 2002)

Specifically, these fifteen organizations currently spend about 17 cents of every dollar they raise through direct mail for the purpose of sending mailings to prospective donors Our survey found that losing the predictive power provided by external information would cause their response rate to drop by 43 percent.[25] To gain the same number of new donors with this lower response rate, these organizations would need to increase their prospect mailings by 76 percent.[26] Assuming constant returns to scale, this would increase their fundraising cost by 12 percent of total revenue from direct mail. This also assumes that there is no deterioration in the housefile, an unlikely scenario given conventional wisdom about database decay.

[25] The average response rate to direct mail solicitations using third party data among those charitable organizations responding to the ISEC/Nonprofit Federation survey was 2.5%. To calculate the adjusted response rate accounting for a third party data restriction, the average response rate was multiplied times the ratio of random select average response rates to top decile average response rates from those charities that responded to the ISEC/Nonprofit Federation survey. In this case, the ratio of random select to top decile was 56.8%. Thus, to calculate the adjusted response rate, the equation is (2.5%)*(56.8%) or 1.4%. Finally, to calculate the rate of change in response rates given a data restriction, the equation is $\partial r/(\Sigma NR/n)$, where "NR" is the response rate with no restriction, "n" is the number of responses, and ∂r is the change in response rates given the proposed third party data restriction analyzed in this study. The derivation for the rate of change, then, is (2.5% - 1.4%)/2.5% or 43 percent, excluding the in-built differences attributable to rounding.

[26] Results from the ISEC/Nonprofit Federation survey showed an average annual prospect mailing of 24,351,330 pieces with an average response rate of 2.5%. The adjusted average response rate for prospects, in turn, was 1.4%. Using the adjusted response rate, and assuming that a charitable organization wishes to maintain its current level of annual donations, then the average prospect mailing would be (24,351,330) x (2.5/1.4) or 42,839,431. The ratio of the adjusted prospect mailing to the original mailing is 1.76, or, a 76 percent increase in the total number of pieces required to maintain the same level of donations.

b. Analysis of Opt-In for External Data – Person-to-Person Fundraising

As previously discussed, prospect identification and research, cultivation, and solicitation are the steps in the person-to-person solicitation process. Charitable organizations use external information from the first step through the last step. External information helps identify prospective donors with the willingness and capacity to give, helps reveal interests, and helps determine the amount to ask for. Person-to-person fundraising would continue even if external information became unavailable, but efficiency would be reduced significantly.

Fundraisers would have a more difficult time determining how much they should ask for and would be less able to prioritize their donor cultivation efforts. Some nonprofits would respond by maintaining their current efforts without the use of external data, others by increasing their fundraising staff. Hence, some nonprofits would maintain their fundraising costs (and therefore lose revenue) while others would increase their costs (and keep revenue constant).

The lack of external information would affect the nonprofit's ability to determine how much to ask for and, therefore, the resulting donations are likely to be at lower average levels and the "stretch" gives would likely decline as well.[27] Less information would cause inefficient decisions as well as inefficient requests. Inefficient requests are those requests where donors would have given more had they been asked to stretch and those requests where the donors gave smaller amounts because they were asked for too much.

Table 6, 2000 Donations by Average Tax Filer, presents total donations of $98.473 billion by selected adjusted gross income brackets compiled from IRS data. Average actual donations were 3.25 percent of average reported salaries.

[27] The reader will recall that the third party data restriction examined in this study is a broad, ideal-type, which includes self-reported data, publicly available data, and public record data. Using this approach, it is possible to draw inferences about the social and economic consequences wrought by a narrower data restriction, such as one that embodies only non-sensitive financial service information.

The percentage increased as income rose and ranged from a low of 1.57 percent for those making between $25,000 and $49,000 to a high of 15.05 percent for those making a million dollars or more.

Filers making a million dollars or more donated 15.05 percent of their salaries to charities. If, due to inefficient requests, these filers reduced their giving to 7.15 percent of income, like those in the $500,000-$999,999 income bracket, total charitable donations would drop by approximately ten percent.[28] Applying this rate to person-to-person contributions implies a potential decrease in fundraising revenue of approximately $6.5 billion, or a 53% reduction in the total giving from the $1,000,000 or more income bracket. This reduction of roughly $9.9 billion in giving from donors in the top income tax bracket, in turn, represents approximately 10% of the total person-to-person giving. Even if our estimate is off by as much as 50%, this still results in a loss of $3.25 billion in annual donations solicited through person-to-person campaigns.

[28] Only the top income bracket is assumed to be affected by a third party data restriction in this study. This is due to the fact that an overwhelming majority of solicitations for large donations target individuals in this income bracket. In reality, however, donors in other income tax brackets would likely be affected. For this reason, then, the finding could be understated. The decline from average giving of 15.05% of household income to 7.15% is designed to account for the absence of third party data enabling refined targeting of likely donors, assessment of an individual's ability to give, past giving history and amount, and lifestyle and interest information used for donor cultivation that, when combined, enable charities to spend more time cultivating a donor and knowing, within a fair margin of error, how much to "stretch" the request for a donation. Even when a sizeable portion of total annual charitable giving comes from a small number of extraordinarily wealthy donors, the challenge is to identify who is most likely to give to a particular program and have some sense of how much they are willing to give. As households with a million dollars of annual income are taxed at the highest rate, this study focuses primarily on this group. We assume that the difference between the top income tax bracket, and the next highest is attributable largely to the free flow of information. Finally, this figure may also be understated as the impact of a third party opt-in data restriction on other person-to-person campaigns that are data reliant, such as the "neighbor-to-neighbor" campaigns, are not factored into this estimate. This is significant as these campaigns can account for as much as 20% of a large national charity's annual revenues.

Table 6. 2000 Donations by Average Tax Filer[a]

Adjusted Gross Income Brackets	Number of Filers	Average Reported Salary	Average Actual Donations	Average Donations as % of Salary	Total Donations (000,000s)	Total Salaries (000,000s)	Adjusted Total Donations (000,000s)
$25,000-49,999	30,819,522	$29,645	$465	1.57%	$14,331	$913,645	$14,331
50,000-74,999	15,160,241	$49,412	$1,324	2.68%	$20,072	$749,098	$20,072
75,000-99,999	6,454,920	$67,936	$2,072	3.05%	$13,375	$438,521	$13,375
100,000-199,999	5,377,899	$93,035	$3,201	3.44%	$17,215	$500,333	$17,215
200,000-499,999	1,401,734	$167,630	$7,251	4.33%	$10,164	$234,973	$10,164
500,000-999,999	261,708	$250,564	$17,925	7.15%	$4,691	$65,575	$4,691
1,000,000 or more	144,459	$856,771	$128,935	15.05%	**$18,626**	$123,768	**$8,854**
Total	59,620,483	$50,753	$1,652	3.25%	**$98,473**	$3,025,912	**$88,701**

a *Giving USA 2000.* AAFRC Trust for Philanthropy, p. 51. Source excludes the over 62 million tax filers with Adjusted Gross Income below $25,000.

c. Analysis of Opt-In for External Data – Telephone Solicitations

Given the likely substitution between direct mail and telephone fundraising efforts, the precise quantification of the impact of an "opt-in" type data restriction upon the effectiveness of fundraising via the telephone is virtually impossible. There is, however, sufficient anecdotal evidence from those charitable organizations interviewed and surveyed that use the telephone to raise funds to make reasonable estimates about the direction and magnitude of the likely costs associated with an "opt-in" third party data restriction.

Any attempt to assess the impact of such a restriction must be tied to the specific data sets that would disappear as a result of a third party data restriction. Assuming that such a restriction included core marketing data including name, address, gender, previous names or aliases, age, phone number, and e-mail address, the impact on the ability of nonprofit organizations to use the telephone to acquire new donors would be immediate and significant. Indeed, the executive director of one national human services charitable organization stated,

"We have never been able to make a straight charitable appeal for (the) acquisition (of new donors) ... the neighbor-to-neighbor model drives all the new blood through our organization."[29]

Foreclosing access to core marketing data for commercial purposes devastates the ability of major national charitable organizations to efficiently engage in cold call active process (neighbor-to-neighbor) marketing, as the model that drives this type of campaign loses data sets vital to its functioning. If we assume that, as with direct mail, response rates decrease by 43 percent as a result of less data and less accurate data, then the typical charitable organization would have to increase its marketing expenditure by 76 percent to raise the same amount of donations through its telephone solicitation program – resulting in a transfer of resources away from programs toward administrative costs – or, donations would decline by a similar magnitude. This increase equals 12 percent of total revenue from telephone solicitation campaigns.

In the example cited above, the national charitable organization that raised 20 percent of its total donations through neighbor-to-neighbor campaigns ($8 million of $40 million) would only be able to raise 13 percent of its total annual donations ($4.6 million of $36.6 million) through active giving campaigns with a constant marketing expenditure – a decline of $3.4 million or 43 percent of the amount raised through neighbor-to-neighbor campaigns.

On a national level, if we assume conservatively that a typical charitable organization receives approximately two-thirds or 66 percent of its total donations from past or extant donors over their lifetime, and one-third or 33 percent from newly acquired donors, then a 43 percent decrease in telephone solicitations to

[29] Interview with major health and medical human service charitable organization. 6 December, 2001.

prospects results in a loss of $6.8 billion in donations each year.[30] If charitable organizations engaged in active process donor acquisition programs increase their marketing expenditures by 75 percent (i.e., 12 percent of total revenue) to offset the decline in response rates, this would still result in a transfer of $5.9 billion annually from charitable programs to administrative costs. Under either scenario, an "opt-in" third-party data restriction that limits the use of core marketing data for commercial purposes – including fundraising for charitable organizations – would result in socially suboptimal inefficiencies. Unfortunately, the segment of society that would be forced to bear the heaviest costs – the recipients of services from charitable organizations – are precisely those that are least able to do so.

d. Additional Impacts of Opt-In for External Data

An opt-in third-party data restriction would have at least two additional negative externalities on charitable organizations. First, charitable organizations would lose revenues earned from the rental of their appended and unappended housefile list. Revenues earned from the rental of housefile lists typically go directly into the general fund for charitable programs. To illustrate this point, in the case of the $40 million national charity, $1.7 million in revenues are derived annually from the sale of appended and unappended lists. This money directly covers program costs. Under an opt-in regime, assuming a 15 percent opt-in rate, the charitable organization would lose 85 percent of the earnings from list rentals, resulting in an additional reduction of $1.5 million for their programs and services. Nationally, assuming that the average charitable organization accounts for 2 percent of its annual revenues through the sale or rental of lists, then an opt-in data restriction would result in a loss of program funds in the range of $800 million to $940 million annually.[31]

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[30] For a discussion of how this figure was derived, see footnote 22.

[31] Based on an informal interview with select national and local survey respondents. The average for this group was 2.3% of total revenues. A higher figure (2%) is used in this study based on

Again, even if lawmakers exempt nonprofits and charitable organizations from this particular form of data sharing, because housefile data can no longer be analyzed and appended, and assuming normal housefile deterioration rates, even lists of donors purchased from other charities will not be as accurate (40 million Americans move each year), and the ability to identify potential donors from the broader pool (names not on a purchased list) will also be eliminated. For these reasons, an opt-in third party data restriction that exempts charities and nonprofit organizations would still impose considerable costs upon these entities.

A second negative consequence resulting from an opt-in third party data restriction, although less quantifiable, is no less serious. Should the availability of accurate core marketing data diminish – and in this case, particularly data about an individual's age – then charitable organizations that operate bequest, legacy, and planned giving programs will be severely hampered. Often times, charitable organizations with a focus on a particular medical condition – cancer, Parkinson's, or Alzheimer's, for instance – are more oriented toward a mature or elderly donor base.

One such organization indicated that the average age of a donor on their housefile list was 66 years old.[32] This particular organization selects candidates for its planned giving programs based on a number of criteria, including highest previous contribution, total lifetime contribution, whether or not the individual has made multiple contributions, and their age. Age is an important identifier for planned giving programs, as those who are more advanced in their age are more apt to participate. Given the focus on this elderly cohort, accurate age information is critical. Charitable organizations do not want to solicit donations from deceased individuals, as families of the deceased are likely to be highly

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feedback from those interviewed claiming that other charities either didn't use their housefile for revenue generation, or did so less aggressively.

[32] Interview with national medical/health care human services charitable organization. 6 December, 2001.

sensitive to such inadvertent mistakes. These errors, no matter how innocent, will result in extreme negativities that will alienate individuals who otherwise may have made a contribution.

Section IV -- Conclusion: Calculating the Total Cost of Data Restrictions

The above analyses suggest that a third-party sharing opt-in scheme would increase direct mail campaign costs by 12 percent of total direct mail campaign revenue and could potentially decrease person-to-person contributions by 10 percent. Table 7, Decrease in Disposable Funds, presents the net effect of increased costs and decreased revenues for the nonprofit industry. To raise a constant amount of revenue with lower response rates, direct mail costs increase by $4.1 billion. Assuming a similar impact on telephone solicitations, telephone solicitation costs would increase by another $5.9 billion. Person-to-person revenues could also drop due to inefficient information by $6.5 billion.

Table 7. Decrease in Disposable Funds

	Direct Mail	Telephone	Person-to-Person	Total
Fundraising Revenue	$32.4 billion	$47.1 billion	$65.3 billion	$144.8 billion
Increase in Fundraising Cost	4.1	5.9	N/A	10.0
Decrease in Revenue	N/A	N/A	6.5	6.5
Decrease in Disposable Revenue	4.1	5.9	6.5	16.5

N/A = not applicable.

Of the $144.8 billion raised in 2000 from direct mail, telephone solicitation, and person-to-person solicitations, charitable organizations could have as much as $16.5 billion less to spend on their missions. Instead of researching cures for diseases, caring for children, feeding the homeless, nurturing the environment, and providing the many considerable services of charitable organizations, an additional $10.0 billion must go towards fundraising and as much as $6.5 billion is not captured.

Despite these costs, the government has a role in ensuring that personal information is used responsibly, and that an individual's privacy is protected. For the most part, however, nonprofit organizations already protect the privacy of donors by offering them the choice to "opt-out" from having their personal identifying information shared with third parties for any purpose. The choice to opt-out is typically presented in the solicitation for a donation, which includes language concerning the soliciting organization's information sharing practices, usually in a section labeled "privacy policy."[33]

In the case examined in this study, the data restriction is an opt-in, or affirmative consent requirement for the sharing of personal identifying information with third parties for commercial purposes. This study assumes that an opt-in requirement would effectively foreclose the sharing of any information with third parties based on the experience of companies that have tried to obtain affirmative consent from their customers to use personal identifying information.[34]

After having read this report, many will be tempted to conclude that the "problem" confronting nonprofit organizations, should a third-party data restriction become law, could be easily resolved through offering an exemption. Unfortunately, this "solution," while well-intended, does not yield the desired effect. Information aggregators derive less than 2% of their total annual revenue from transactions with nonprofit organizations.[35] Thus, if the enactment of a third-

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[33] As their understanding of online relationships evolves with the growth of the Internet, nonprofit organizations are beginning to understand the need for more user-friendly Web sites. In particular, the visibility of their privacy policies, and the prose therein, has become more accessible to a general audience and will continue to make great strides forward over time. There is, however, much work still to be done.

[34] See earlier discussion of U.S. West (now Qwest Communications) affirmative consent trials for use of customer proprietary network information (CPNI), as well as reaction of states to the Shelby amendment to the Driver's Privacy Protection Act (DPPA).

[35] Figure cited based on results from an informal survey of 5 of the nation's largest information aggregators, each of which was asked to provide the ratio of revenues attributable to the provision of product and services to nonprofits over total annual revenues. Of the five firms surveyed, not a single firm reported earning more than 1% of total revenue from sales to nonprofits. This figure was doubled to account for the possibility of an outlier, the probability of which seems small given the representativeness of the sample. Survey conducted during the week of January 7, 2002.

party data restriction were to dam up the bulk of their revenue stream, then the subsequent trickle of revenue from sales to nonprofits would be insufficient to keep these firms afloat. In the end, even legislation that exempted nonprofits would drive these firms and their services out of the market and effectively foreclose the same data to nonprofits as well.

Whether or not the collection and use of non-sensitive personal identifying information for commercial purposes is subjected to additional rules is ultimately up to the citizenry and their elected officials to decide. Indeed, it is not the intent of this study to assess the relative merits of such legislation. In the process of considering such proposals, however, it is necessary to weigh the potential benefits to be yielded by any new law, along with the likely resulting costs. It is hoped that this analysis has illuminated some of the expected costs in one segment of the nonprofit sector of the U.S. economy. This study, then, should also be considered as part of an emerging body of research designed to quantify the potential impact of a third-party data restriction on U.S. consumers, firms, and the general economy. [36]

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[36] Some examples of such research include: Turner, Michael A., Ph.D., "The Impact of Data Restrictions on Catalog and Internet Apparel Retailers," March 9, 2001. Study done on behalf of the Privacy Leadership Initiative (PLI) and the Information Services Executive Council (ISEC); Ernst & Young LLP, under the direction of Cynthia Glassman, "Customer Benefits from Current Information Sharing by Financial Services Companies" for a description of the various sources of savings. Conducted for the Financial Services Roundtable. (Ernst & Young, December 2000); Fred Cate and Michael Staten, "The Impact of Opt-In Rules on Retail Credit Markets: A Case Study of MBNA." (The Privacy Leadership Initiative and ISEC, Forthcoming – Expected release data February, 2002. Available at www.understandingprivacy.org): Walter Kitchenman, "US Credit Reporting: Perceived Benefits Outweigh Privacy Concerns." (The Tower Group, 1999) ; Fred Cate and Michael Staten, "The Impact of Opt-In Rules on Retail Credit Markets: A Case Study of MBNA"; John Baron and Michael Staten, "The Value of Comprehensive Credit Reporting: Lessons from the US Experience." Also see Joseph Stiglitz and Andrew Weiss, "Credit Rationing in Markets with Imperfect Information." *American Economic Review.* 71: 393-410 (1981)

APPENDIX A

Why Individuals Give

Reason	% of Total Population
Feel strongly about the cause	59
Moral imperative or right thing to do	47
Personal experience with the organization	40
Religion or spirituality	36
Involvement of friend, family member, or coworker with the organization	33
Health (illness of a family member, friend, or self)	30
Tax benefit	28
An event associated with the organization	26
Response to a specific request	25
Tithing	21
Family tradition	16
News or media story	15

a The Chronicle of Philanthropy, http://philanthropy.com/premium/articles/v13/i07/07002401.htm, registration required.

APPENDIX B

WHY THE ESTIMATED IMPACT FIGURES COULD BE UNDERSTATED:

➢ **Impact on Past Donors Not Quantified:** The focus of this study is only upon the impact a third party "opt-in" data restriction would have upon prospecting, that is, donor identification, cultivation, and solicitation. It does not, however, attempt to quantify the impact such a data restriction would have upon a nonprofit charitable organization's housefile and mailings re-solicitation phone calls to existing donors. Given the housefile deterioration rate projected by those organizations interviewed and surveyed for this study, in some cases a 30% rate of decay was indicated, a third party "opt-in" data restriction would likely result in a substantial drop in response rates from past donors.

➢ **Impact on Person-to-Person Solicitations only Partially Quantified:** While an attempt was made to assess the likely impact on person-to-person fundraising efforts by nonprofit charitable organizations, only the top income tax bracket was assumed to have been affected. There is good reason to believe, however, that donors in all income tax brackets would be affected. For example, many large national charitable organizations use "neighbor-to-neighbor" fundraising campaigns. These campaigns are heavily data-reliant both in their ability to identify individual campaign leaders, and neighbors within a certain radius of the campaign leader who are most likely to donate their time or financial support to a particular charitable cause. A third party "opt-in" data restriction would eliminate data elements crucial to the underlying predictive model, thereby significantly diminishing the revenues likely to be raised using this technique.

WHY THE ESTIMATED IMPACT FIGURES COULD BE OVERSTATED:

➢ **Exclusion of Continued List Sharing:** An opt-in law that exempts nonprofit charitable organizations, while denying them many of the benefits of third-party data, could still permit the exchange of lists among the nonprofit community. Given that these lists are arguably the best source of data for prospect marketing, the extent to which response rates for prospecting decline will likely be less than this study concludes. It is worth repeating, however, that even with the ability to share lists within the nonprofit community, the hypothetical opt-in would still impact housefile data as it continues to decay due to increasingly inaccurate data.

➢ **Use of Proxy Data Not Assessed:** Nonprofit charitable organizations, particularly the larger national charities with significant resources at their disposal, given an opt-in data regime, would likely find alternative sources of data, either by surveying current and previous donors to get them to reveal interest and lifestyle information, or through other means not covered by a hypothetical third-party data restriction. While gathering data in such a manner would be less efficient than current practices, and, therefore, more costly, it would likely offset some of the projected loss. The precise extent to which the use of proxy data would mitigate against lost donations is impossible to gauge *ex ante*, however, given the scope of data that would be "taken off the shelf" as a result of an "opt-in" law, the impact of proxy data would likely be marginal at best.

APPENDIX C

About the Authors

Michael A. Turner earned his Ph.D. in political economy from Columbia University. For the past three years, he has served as the Executive Director of the Information Services Executive Council (ISEC), an affiliate of the Direct Marketing Association (The DMA). Turner also currently serves as the Chairman of the Privacy Leadership Initiative's Committee on Consumer Benefits Research. In addition, Turner currently serves on several advisory boards, including the American Medical Association's Preference Solutions Privacy Advisory Board. Prior to joining The DMA, Turner worked for the Columbia Institute of Tele-Information (CITI) at the Columbia University Graduate School of Business where he served as Project Manager for Eli Noam's forthcoming book *Media Concentration in the United States* (MIT Press). Turner worked many years as a freelance consultant with a focus on high-tech industries. Turner began his career working as a U.S. Senate staffer and as a lobbyist for several years for the North American Telecommunications Association.

Turner has published one book and dozens of articles on policy issues relating to technological change. More recently, he has begun examining the implications of advances in computing and communications technologies on social, economic, and political issues associated with privacy. A frequent public speaker, Turner is an active member of the American Political Science Association (APSA), the International Telecommunications Society (ITS), and the European Union Studies Association (EUSA).

Lawrence G. Buc is the President of SLS Consulting, Inc. a Washington, D.C. firm specializing in economic, operational and environmental analyses, often with a focus on the mailing industry. Mr. Buc has more than 25 years of experience on projects involving policy, regulatory, legislative, economic, financial, environmental, and legal issues. His recent work has focused on privacy issues and also on the costs, rates, and revenue requirement of the United States Postal Service (USPS). Prior to founding SLS, Mr. Buc was President and CFO of a $16 million dollar a year firm that provides environmental, management, and information technology consulting services to public and private sector clients.

Mr. Buc received an AB (with honors) in mathematics and economics from Brown University and an MA in economics from the George Washington University of America. He is a member of the American Economic Association.