STRATEGY • RESEARCH • IMPACT

Funding Strategies That Work: Why Diversified Revenue Models Outperform Traditional Fundraising

A Catalyst Collective Group Case Study

BUSINESS PRIORITY	SECTOR	ENGAGEMENT FOCUS
Revenue Resilience & Diversification	Nonprofits & Mission-Driven Orgs	Funding Strategy Advisory

EXECUTIVE SUMMARY

For decades, conventional fundraising wisdom held that mission-driven organizations should specialize: pick the revenue channel you're best at, a signature gala, a core government contract, a handful of major donors, and pour resources into perfecting it. The 2020 pandemic shock, followed by a volatile decade of policy shifts and philanthropic contraction, has forced a hard re-examination of that model. This case study synthesizes financial-vulnerability research, sector data, and real-world organizational experience to answer a practical question for boards and executive teams: does diversifying revenue actually make an organization more resilient, and if so, how should that reshape funding strategy?

The short answer: diversification is a genuine risk-management tool, but it is not a silver bullet, and the academic evidence is more nuanced than most sector commentary suggests. The strategic takeaway isn't “diversify at all costs”, it's “know which risk you're managing, and diversify deliberately against it.”

RESEARCH BASIS

23

empirical studies synthesized in the underlying meta-analysis

A systematic review pooling 258 effect sizes — the evidentiary foundation for the findings in this case study.

01 — THE TRADITIONAL MODEL AND ITS HIDDEN FRAGILITY

Concentration's Hidden Cost

Revenue concentration, deriving a large share of income from one source, whether a government grant, a single foundation, or a peer-to-peer fundraising event, has an obvious appeal. It's operationally simple, it lowers administrative and fundraising overhead, and it lets a small development team go deep rather than wide.

But concentration also builds a single point of failure into an organization's financial structure. When one revenue source accounts for a large share of total funding, the loss of that source can leave an organization scrambling to make up the gap or force it to pause programs entirely. That risk isn't hypothetical. Foundational work by nonprofit economists Howard Tuckman and Cyril Chang formalized this logic decades ago, introducing a “revenue concentration index” as one of the core measures used to assess whether a nonprofit could survive a financial shock, the more concentrated the revenue base, the higher the vulnerability score.

The COVID-19 pandemic became something close to a live stress test of this theory at sector-wide scale.

02 — WHAT THE PANDEMIC ACTUALLY SHOWED

A Sector-Wide Stress Test

When public gatherings stopped in early 2020, revenue models built around galas, ticketed events, and face-to-face fundraising were hit almost immediately. Fundraisers across the nonprofit arts and culture sector had to devise alternative strategies to compensate for a sudden drop in revenue after in-person fundraising activity was prohibited. Organizations that had leaned on peer-to-peer fundraising as a primary channel struggled to maintain revenue once participants could no longer gather in person, and many still had not returned to pre-pandemic revenue levels years later.

By contrast, some organizations with pre-existing diversified portfolios weathered the disruption with less damage. Research on nonprofit financial capacity has consistently found that revenue diversification reduces volatility and increases sustainability when any single revenue source declines. A qualitative study of a multi-service human services organization found that its mix of government contracts across several distinct program lines, plus a separate foundation arm, meant it was not heavily damaged by the pandemic specifically because no single funding stream carried the whole budget.

Planned and asset-based giving told a similar story on the donor side. Organizations with established planned-giving programs saw a smaller decline in support during the pandemic, largely because those gifts are committed well in advance and aren't tied to a donor's immediate financial situation. Nonprofits that had already built out this kind of long-horizon giving before the crisis had, in effect, insulated part of their budget from short-term donor anxiety.

03 — THE COMPLICATION

What the Broader Research Actually Says

Here is where the sector narrative gets ahead of the evidence, and where a credible funding strategy has to be more precise than “diversify everything.”

A large-scale synthesis of the academic literature, a bibliometric and meta-analysis pooling 258 effect sizes from 23 empirical studies, found that revenue diversification had little measurable effect on financial vulnerability overall, and was actually associated with a slightly negative effect on financial capacity. Other researchers examining U.S. nonprofit data found the opposite of the popular assumption: organizations with more concentrated, specialized revenue sometimes grew faster, largely because concentrated revenue is associated with lower administrative and fundraising costs, though that efficiency comes at the price of greater exposure to swings in the organization's financial position.

Put plainly: chasing diversification for its own sake can add real cost. Every new revenue channel, an earned-income venture, a corporate partnership program, an individual-giving pipeline, requires its own staff expertise, compliance overhead, and cultivation time. An organization that spreads itself across five underdeveloped channels isn't necessarily safer than one with two channels it runs exceptionally well; it may just be less efficient at all of them.

The research that holds up best treats diversification not as a blanket strategy but as a hedge that has to be sized to the actual risk an organization is exposed to. A 2022 study of nonprofit business model adaptation during COVID-19 concluded that it was the combination of revenue diversification with organizational creativity and strategic agility that predicted resilience, diversification alone, absent the operational capacity to actually execute across channels, did not.

04 — WHAT THIS MEANS IN PRACTICE

Three Patterns That Distinguish Real Resilience

Drawing together the evidence, three patterns distinguish organizations that get real resilience value from diversification, versus those that just add complexity:

1. They diversify against a specific, named risk, not generically.
The strongest cases for diversification involve organizations that had one dominant, fragile

revenue line (a single major donor, one government contract up for renewal, an event-dependent model) and deliberately built a second, uncorrelated stream to offset that specific exposure. Diversification driven by an actual vulnerability audit outperforms diversification driven by imitation of sector trends.

2. They build new channels to competency before counting on them.
One organization profiled for its diversification approach deliberately invested in a smaller donor-acquisition channel long before it represented a meaningful share of revenue, treating the early, low-return period as brand-building rather than expecting immediate ROI. The lesson generalizes: a new revenue stream doesn't provide real protection until it has been developed to the point of reliability, a nascent channel is not yet a hedge.

3. They track the composition of their portfolio, not just the total.
Organizations that actively monitor the performance of each revenue stream separately are better able to identify which sources are genuinely resilient and pivot toward them when another stream weakens, treating the funding mix as an actively managed portfolio rather than a static list of income sources.

05 — STRATEGIC IMPLICATIONS FOR LEADERSHIP TEAMS

Four Concrete Disciplines

For executive directors, boards, and chief development officers evaluating their own funding strategy, the evidence points to a few concrete disciplines rather than a single directive:

- Start with a concentration audit, not a diversification plan. Before adding channels, quantify what share of revenue comes from your top one, two, and three sources, and identify which of those is most exposed to a policy, market, or donor-behavior shock in the next 12–24 months.
- Match the new channel to the specific gap. If the exposure is a single large government contract, the offsetting channel should ideally be counter-cyclical to public funding, earned income or individual giving, for example, not another grant-dependent stream with correlated risk.
- Budget for the investment period. New revenue lines carry real development costs before they produce reliable income; underfunding that build-out is why some diversification efforts show up as a net drag on financial capacity in the research.
- Preserve, don't abandon, the core. The evidence does not support walking away from a well-performing concentrated stream; it supports building a genuine second leg alongside it.

06 — CONCLUSION

The Real Question

Diversified revenue models don't automatically outperform traditional fundraising, the research is genuinely mixed on that point, and organizations should be skeptical of any claim to the contrary. What the evidence does support is narrower and more useful: revenue diversification, when built deliberately against a specific concentration risk and funded through to real competency, measurably reduced the damage sustained by nonprofits during the pandemic-era shock, particularly for organizations that had already invested in channels like planned giving before the crisis hit. The organizations that got this wrong were often those that diversified reflexively, spreading effort thin without building any one new channel to the point where it could actually carry weight.

> The strategic question for any funding plan, then, isn't "traditional or diversified." It's: what specific risk are we exposed to, and is the channel we're building actually strong enough yet to offset it?

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Prepared by Catalyst Collective Group

ABOUT CATALYST COLLECTIVE GROUP

Catalyst Collective Group (CCG) is a strategic growth and business development advisory firm that helps organizations build the partnerships, positioning, and operational capacity required to scale outcomes. We support nonprofits, government agencies, educational institutions, healthcare organizations, foundations, and mission-driven businesses with solutions that include executive strategy, partnership development, operational excellence, revenue diversification, and community impact planning—ensuring growth is aligned, measurable, and sustainable.

Our mission is to transform ideas into investment, partnerships into progress, and vision into measurable, sustainable impact.

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