

Income Diversification Factsheet



What is income diversification?

Income Diversification is the strategy of generating revenue from multiple sources to reduce the risk of relying on a primary stream, like grants or donations. Key strategies include deepening supporter relationships, developing new fundraising methods, corporate partnerships, and creating value-added products or services.

Why is it helpful?

Income diversification is helpful primarily because it is a key strategy for avoiding risk and ensuring greater financial stability and resilience for organisations. Diverse income strands also support growth and reserves building, increase flexibility, reduce dependency and improve decision-making. Relying on a single point of failure can leave any organisation vulnerable to unforeseen events, economic shifts, or challenge.

Core aspects of income diversification

Existing portfolio – Refers to your current mix of revenue streams, typically across three main sources: **voluntary**, **statutory** and **earned income**. Assessing your portfolio helps **reduce financial risk and improve long-term sustainability** by understanding reliance on a single income stream.

Predictability income – Like businesses, **cashflow is king**. The more predictable your income, the more resilient your organisation is. Consider the level of volatility across different sources (e.g.,

Revenue income streams

Grants and foundations

Project funding

Core funding

Capital

Events

Ticket sales

Auction

Sponsors

Fund - a-need

Individual gifts

Major gifts

Monthly recurring

One time gift

Online giving

Corporate partnership

Matching gifts

Employee giving

Cause marketing

Sponsorship

Earned income

Social enterprises

Free-for-service

donations, grants, earned income, investments). Decline in one area can be balanced by stability or growth in others.

Who provides the income? – Understand the range of providers (central or local government, trusts, corporations, or individuals/the public). A balanced mix helps reduce exposure to political or financial changes. Aligning with organisations that share similar goals can also strengthen resilience.

Leveraging technology – Technology helps charities and non-profits diversify income beyond traditional grants and donations. It allows organisations to explore new models, improve engagement with service users and communities, and increase efficiency.

Step by step guide

1. Deepen supporter relationships

- Understand your existing supporters better and encourage regular, predictable giving.
- Enhance your digital presence and improve conversion rates.

2. Understand your current income mix

- Understand your current funding using the Diversification Matrix.
- Identify the diversity within each of the types of income.

3. Evaluate what others are doing and innovate

- Evaluate other organisation's income and how they work (cause, operating model and size).
- Use innovative approaches like digital fundraising and cashless giving to reach supporters.

4. Assess opportunities from your network

- Relationships are the backbone of the charity sector so utilise your networks.
- Develop partnerships to secure funding, share resources, or merge functions.

5. Agree your ideal income mix, investment and risk appetite

- Consider the changes needed to support your organisation's income mix, including operating model, strategy, and governance.
- Think long-term investment, as you might not be replacing like for like in the early periods.

6. Invest in your board, staff and volunteers

- Build the skills and resources needed, such as grant writing or social enterprise management.
- Be proactive, don't wait for crisis.

7. Be realistic regarding timelines

- To get the right balance between the mix of income you need to be strategic and create the space needed to explore.
- Capacity, skills and board and staff backing are needed.

Key considerations and questions



Keep your mission at the heart of diversification.

Every funding decision should strengthen, not distance, you from your service users and stakeholders. Diversification is a journey, not a one-off task, so review regularly with an eye on finances, capacity, and resources. For smaller organisations, start simple, big ventures like trading arms or complex projects may not be practical right away.

Ask yourself:

- Do we have the right type and mix of funding?
- Will this funding take us away from our vision, mission and values?
- Do we have the right capacity and infrastructure?
- What risk factors will happen if we lose or stop an income source?



Risk and return management

Striking the right balance is essential. Weigh factors like time, risk, and impact, and remember, doing nothing can be just as risky as acting. Stress-test your income mix to prepare for future challenges.

Ask yourself:

- ✓ How long will it take to generate income?
- ✓ What's the expected return on investment?
- ✓ What if things don't go as planned?



Operational and governance

To diversify income, combine market insight with strong governance. Learn from similar organisations but adapt ideas to your mission, create services that deliver real value, and maintain agile governance with clear communication. Ensure legal and regulatory compliance, as major steps like selling assets may require approval.

Ask yourself:

- ✓ Does this approach align with our mission and values?
- ✓ What risks and compliance issues could arise?
- ✓ Do we have the capacity and skills to deliver?
- ✓ How will this impact our stakeholders and long-term sustainability?

