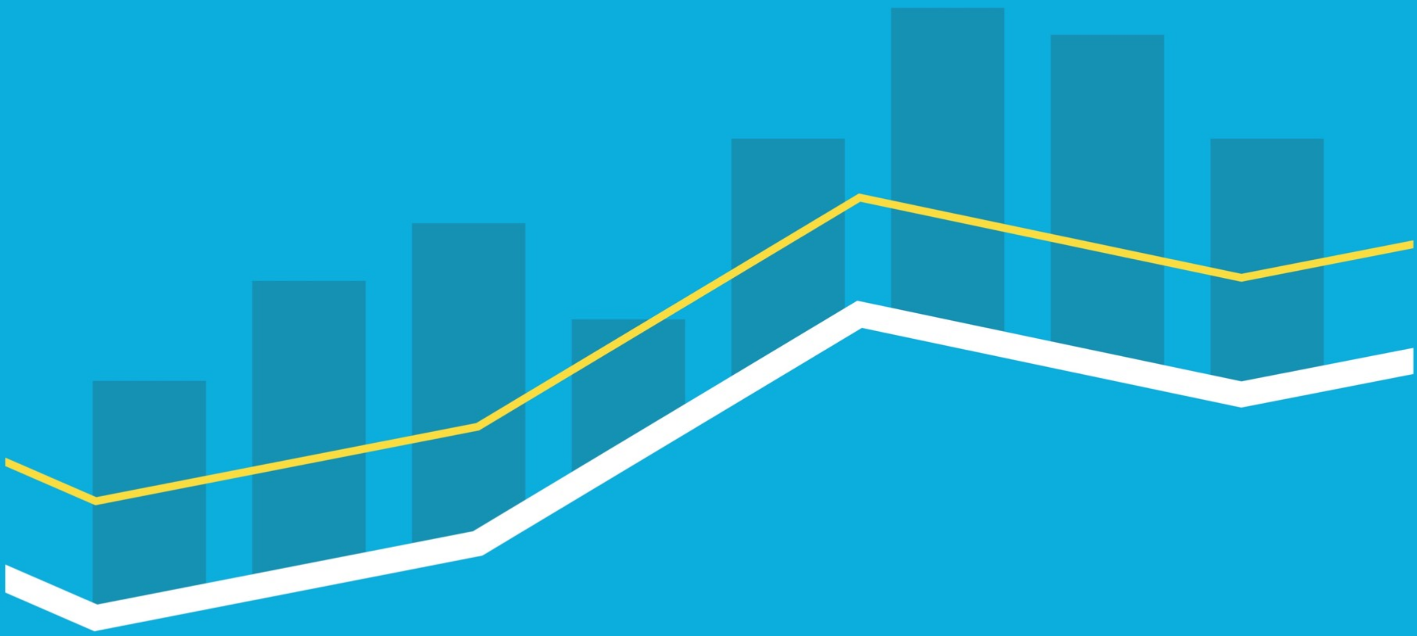
THE DATA-DRIVEN FUNDRAISER'S REFERENCE GUIDE



Zach Shefska

Table of Contents

THE DATA-DRIVEN FUNDRAISER'S REFERENCE GUIDE

WAIT, WHAT IS THIS?

The internet is filled with all sorts of stuff. Articles, blogs, eBooks, webinars – the list goes on and on. Google search "fundraising guide" and you're greeted with approximately 45 million results to choose from.

Finding information that is relevant and applicable in a timely fashion is a skill-set. My hope is that this eBook, the Data-Driven Fundraiser's Reference Guide, will become a timeless resource that you can reference when needed.

For the past few months our team here at FundraisingReportCard.com has been working on distilling all the information surrounding "data-driven" fundraising. Churn, lifetime value, donor acquisition cost — you name it, we researched it, defined it, and determined whether it's super relevant for you this year. The concepts of data-driven fundraising are at the core of our analytics tool, so we thought it might be important to read everything we could on the subject.

All of that hard work has culminated in something that is hopefully useful for the fundraising community at-large. We've tried our best to collaborate with others in the field and cut through the noise. This guide is long, but you should find that it is "actionable" — we trimmed out a lot of "fluff."

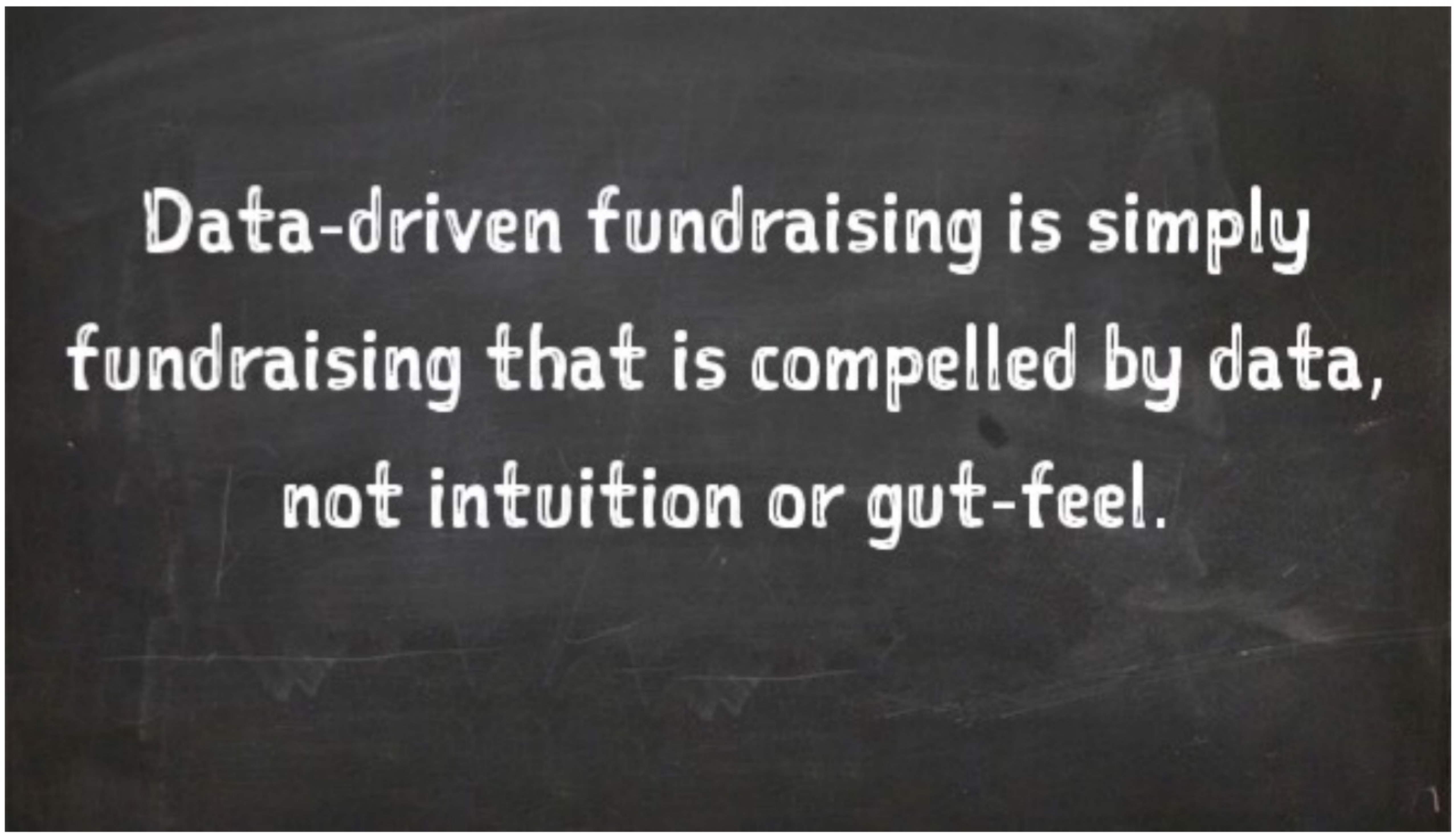
Here is what you can expect:

- Stories from nonprofits that have implemented data-driven behavior
- Case studies from consultants who have had success with data-driven initiatives
- PDF cheat sheets to go along with every topic
- And, a refined and distilled perspective on data-driven fundraising

Without babbling on for too much longer, I think we should dive in.

Chapter 1

BEGINNERS INTRODUCTION TO DATA-DRIVEN FUNDRAISING



Data-Driven Fundraising's Definition

What is data-driven fundraising? Before we can even begin, we need to know what our key phrase means.

The term "data-driven" is thrown around a lot. "Data-driven" very well could be the buzzword of the year, but what does it stand for? Is there a universally accepted definition for data-driven fundraising?

It turns out there is. And our team didn't come up with it. Data-driven fundraising is simply the application of evidence-based practice (EBP) in the fundraising field. Evidence-based practice is characterized by three core components:

•Having a question about something (Will thank-you cards boost retention?)

•Testing that something (Send out thank-you cards.)

•Recording and measuring the results of that test (Did retention go up as a result of the thank-you cards?)

In a nutshell, data-driven fundraising is simply fundraising that is compelled by data, not intuition or gut-feel.

Section 1

BUILDING DATA-DRIVEN CULTURE

With our definition in mind, it becomes clear why company or organizational culture is such a crucial component of successful data-driven fundraising. Organizations, no matter their size, mission or vision, are steered by their culture.

"I recently completed development audits for two nonprofits, neither of which had delved deeply into numbers beyond the overall amount raised in a given year or the amount raised for a specific event or mailing. In each case we looked back over five years and were able to identify peaks and valleys in philanthropic gifts and other trends.

In both cases we found that the nonprofits had lost significant numbers of new donors at some point, which for one of the two could result in significant issues with fundraising going forward given the overall age of the donor base. The findings led to conversations about donor retention and stewardship and resulted in one of the nonprofits sending a brief survey to lapsed donors. The other nonprofit is considering next steps to reach out to lapsed donors to determine whether to keep them on the mailing list."

– SOPHIE PENNEY

President, i5 Fundraising

In order for data-driven practices to take place, you need an organizational **culture that not only accepts questioning the status quo, but endorses it**. Steve MacLaughlin, author of Data Driven Nonprofits, goes into much more depth on the importance of culture (there is an entire chapter dedicated to the topic in his book), but I took away one key passage from his writing.

Steve suggests that there are, "ABC's of data-driven culture adoption." They are:

- Acknowledge the current culture
- Baby step behaviors
- Culture aligns with strategy

Culture isn't set in stone, but it also doesn't change instantly.

If you are serious about adopting a more data-driven culture, then acknowledging your organization's existing culture and focusing on its strengths is a good place to start. Next, be prepared to make small, incremental progress in developing a new culture. Not everyone will be on board with adopting a data-driven mindset. Find champions within your team that are early adopters and engage them. Finally, make sure your data-driven mindset aligns with the strategy of the organization. Without alignment, it's like running into a meeting proclaiming the immediate need for Facebook advertising to boost acquisition when everyone is focused on tightening up your leaky bucket (donor retention).

Acknowledgement, incremental change and alignment, focus on these three components first.

Section 2

DATA-DRIVEN INFRASTRUCTURE

Our culture conversation leads us to one of the most challenging problems nonprofits face when trying to shift towards being data-driven: the lack of infrastructure to efficiently and effectively carry out tests, record data and validate hypotheses.

NeonCRM has a great resource titled, Nonprofit Donor Databases: The Buyer's Guide. Check it out. It's a valuable resource when vetting different infrastructure choices!

It is very easy to say in a meeting, "I think we can improve online giving by 15% if we post more on Facebook," but if you don't have the tools in place to measure online giving, and you don't have the resources to actually post more on Facebook, then nothing good will happen. You will be shot down the moment someone says, "How are we going to measure that 15% increase?"

It's an unfortunate reality, but a lot of the technology and tools that nonprofits use are simply "hand-me-downs" from the for-profit world. (Free Salesforce for example…) A lot of them just aren't that great. But, that doesn't mean it's impossible to find people, software and other resources that can come together to create the infrastructure you need to be more evidence-based.

This ties into another subject, overhead costs, which would be an even longer discussion, but the idea here is simple. It's a chicken and egg problem. You need an organizational culture that endorses questioning, testing and measuring. And, at the same time you need the people, tools and resources to actually be able to do that effectively. Try your best to bring together both at the same time.

Leverage online resources like LinkedIn groups and community forums to learn what your peers are using and how they are building the infrastructure necessary to be more evidence-based.

Section 3

DATA-DRIVEN BASICS

With culture and infrastructure in mind, it's a good time to address a few basic data-driven principles. What are some basic questions that you should have answered? And, what are some simple ways to start getting organized, measured and analytical? I'm glad you asked!

Our team came up with three questions and metrics that are good places to start:

1. **What is our annual rate of growth?**
   - Annual growth rate (both in terms of donors and donations)
2. **What is our annual average gift size?**
   - Average gift size
3. **How much does a donor donate over the lifetime of their giving?**
   - Donor lifetime value

Download the PDF cheat sheet for more information on how to calculate, analyze and understand those three questions/metrics. Hopefully you are starting to think to yourself about how having answers to these three questions would help guide your organization's strategy.

If average gift size has been on the decline for the past three years, maybe it is time to invest some money in upgrading donors. Or, if your donor lifetime value metric is trending upward, it may be the right time to increase budget and allocate resources towards acquiring new donors at your perfect price point.

These questions are simple, but their implications are significant. Part of becoming a data-driven fundraiser is taking a step back from the data. You'll want to spend your time strategizing and analyzing, not crunching numbers and making excel spreadsheets. Begin with these basic metrics and you should be off to a good start.

Section 4

APPLYING THIS TO YOUR SHOP

Data-driven, or maybe we should call it evidence-based, fundraising is a pretty simple concept. **Have a question. Test it. Measure what happened.** Writing it out takes a mere 8 words to do. But implementing the concept is undoubtedly more difficult.

So, like we discussed above, start with culture. Share this eBook with a colleague in the office. Start to have the discussion about metrics at your next meeting. Engage early adopters internally and get their support. Culture is slow to adapt and change (which can be a good and bad thing), but share these ideas and eventually something will stick.

Next, do some research on the infrastructure. You don't want to spend days or weeks measuring and calculating metrics, you want to spend that time thinking strategically about the results of your test. Look into tools that can help you do this more efficiently and easily. (P.S. that's what we've spent the past year building here for you, for free.)

And finally, start small. Growth rates, gift amounts and lifetime value are a great place to start. Look at those metrics, answer those questions and slowly but surely, compel your colleagues and staff to take a look too. Dive even slightly deeper and calculate your donor retention rate, share that metric with your Executive Director. Discuss the potential need for employing steps to retain donors such as developing a welcome series of email or letters sent to first-time donors. Reference Sophie Penney's story from above, and calculate your lapsed donor metric. If that number is growing it might be a good time to suggest implementing a lapsed donor mailing such as a survey.

"At the Philadelphia Museum of Art Suzanne Harris, a Research Analyst was using the Raiser's Edge donor database. Raiser's Edge provided summary financial data, which was exactly what she needed to calculate a RFM (Recency, Frequency, Monetary) score.

Suzanne struggled with how to make it come together for the Museum. She began having conversations internally with database/IT folks. She emphasized how the RFM data would be used and why that was important.

She attended an APRA conference where she heard Joshua Birkholz talk about the value of fundraising analytics. Upon returning to the office she read her notes out loud, verbatim, to persuade people of the importance of a score like RFM.

Then, finally, it all came together in one meeting. Suzanne sat down for about an hour and half with an internal database guru and they worked out how the RFM could be automatically calculated using an intermediary Access database. They cherry-picked the data points most relevant to the Museum and created the scores based on them.

Suzanne's "I can do anything" generalist attitude, combined with her ability to boldly persuade others of the importance of an internal score had resulted in success!"

– JENNIFER FILLA

CEO and Founder, Prospect Research Institute

Section 5

KEY TAKEAWAYS

1. Data-driven fundraising is simply fundraising that is compelled by data, not intuition or gut-feel. The definition isn't overly complex, it's actually pretty simple.

2. You need an organizational culture that endorses questioning, testing and measuring. And, at the same time you need the people, tools and resources to actually be able to do that effectively. Do your best to bring culture and infrastructure together at the same time.

3. Start small. When following the evidence based practices outlined above, question practical, easy to grasp things. Answer questions that your co-workers will comprehend. Present things in simple, visual ways.

Chapter 2

FUNDRAISING METRICS 101

Too Much Data, Too Little Time

When I first started developing the Fundraising Report Card, I was lost. I distinctly remember one afternoon googling "fundraising metrics" and being completely overwhelmed. I had stumbled upon the AFP FEP Glossary of Terms. That document was humbling. It contains 68 different fundraising metrics and 21 separate ways to calculate retention. It's eye opening to say the least.

As I read through the pages, I remember saying to myself, "There's no way we can do this, there is just too much stuff, too much to calculate." I had hoped to build something that would help fundraisers get access to their key metrics in a few seconds, not a few hours. Realizing then that there were 68 "key" fundraising metrics made me think it was impossible to build something quick enough, and simple enough, to be user-friendly. I felt defeated.

Fortunately, I work with some great people. I shared the AFP FEP Glossary of Terms with them and they helped me pare it down. It's not that every metric in the document isn't useful. They are. It is just that some have applications outside the scope of most nonprofits. I had overlooked that.

Fundraising metrics are great, they help us answer our questions and guide strategy. But too many metrics and not the right ones simply become noise. They cloud our vision and actually get in the way.

If I felt defeated looking at the full AFP FEP Glossary of Terms, I can only imagine a nonprofit pro might feel the same way.

Section 1

WHY MEASURE METRICS?

Before we dive in too deeply, let's regroup on a key concept from chapter 1 of this eBook. Why measure metrics? As you'll recall in chapter 1 we defined **data-driven fundraising as simply fundraising that is compelled by data, not intuition or gut-feel.**

With that in mind, we'll want to have a few different metrics already calculated for when questions arise and answers are needed. You could run your calculations on an ad-hoc basis. One day you may be posed with the question, "Would a welcome email series increase donor retention?" How will you be able to come up with the answer? You'll need to calculate current donor retention at this moment, and then again after you test your hypothesis.

But, if you had the infrastructure in place and already had donor retention being calculated for you (software automation), you could simply move onto the strategy component — creating the welcome series. You don't want to get caught up in the eye of the storm. Imagine calculating a dozen metrics in Excel (pivot tables and all), and then immediately trying to interpret them. It would be difficult to say the least. Your mind wouldn't be as sharp as it could have been if those metrics had already been calculated, and were already there, waiting for you.

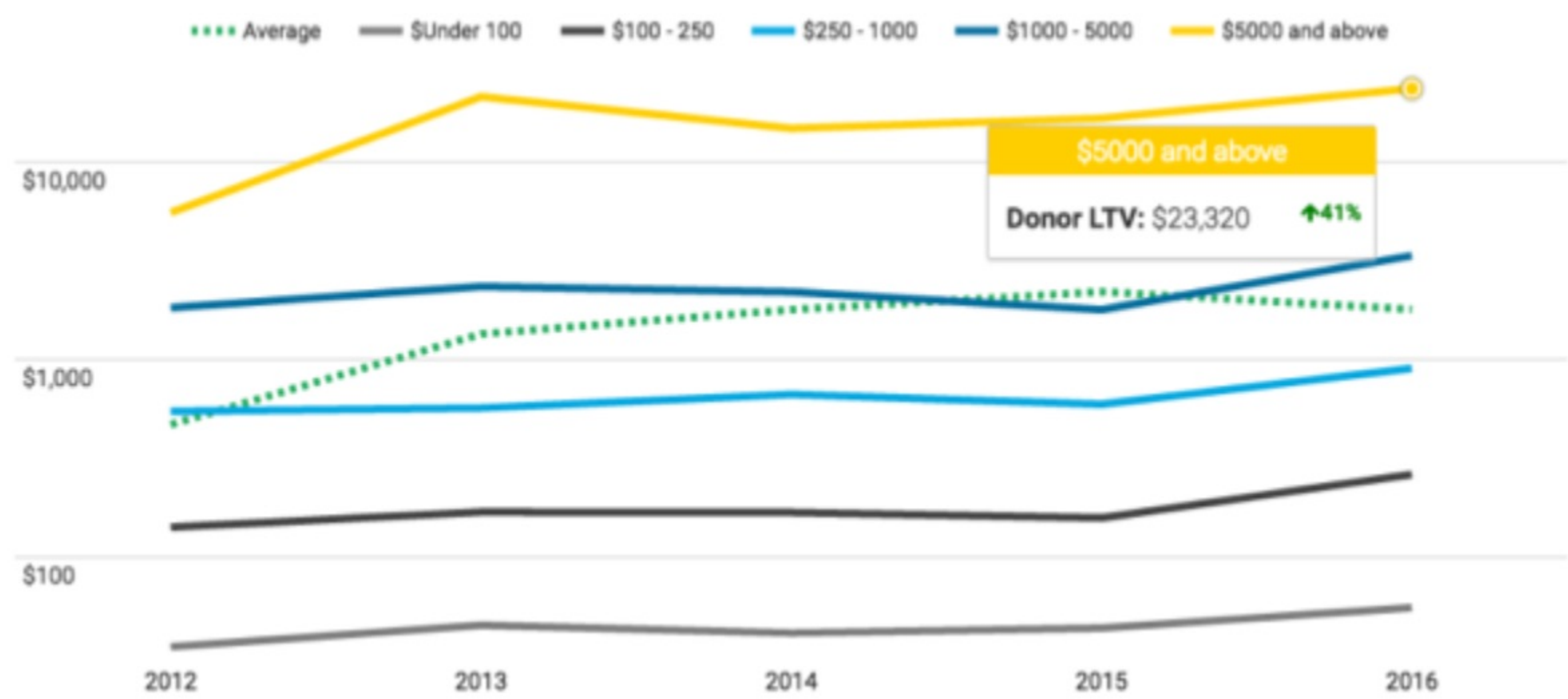
Remember, metrics are part of the evidence-based practice we discussed in chapter 1. They are the measuring stick you will use to validate or dismiss your hypothesis. As you test things you will use different metrics to measure their effects.

10 KEY FUNDRAISING METRICS

Here are 10 key metrics, not 68, that I would keep tabs on. These will be useful when questions do arise, and in my experience they are some of the most helpful numbers on which to concentrate your efforts.

Section 2

DONOR LIFETIME VALUE



Donor Lifetime Value, or LTV, is a prediction of how much money you can expect to receive from a donor during the lifetime of their giving to your organization (from first donation to last donation, acquisition to lapse). This information can help you make important decisions about your fundraising budget.

Keep in mind that a high LTV is a good thing! It means you can expect to receive lots of revenue from your donors before they lapse. That means you can afford to spend a bit of money on appeals, campaigns, support, and so on to acquire and retain them.

The Lifetime value calculation is relatively simple, but it relies on a few other metrics that can be tricky to calculate. To calculate your LTV you'll need to know your donor lifespan, average donation amount, and frequency of donation (the number of gifts a donor leaves in one year).

In the end the calculation looks something like this:

LTV = Lifespan × Average donation amount × (Total # of donations ÷ Total # of donors)

We will go much more in depth on lifetime value in chapter 4 of this series, titled "Measuring ROI with Donor Lifetime Value."

Section 3

DONOR ACQUISITION COST

Donor Acquisition, or DAC, is the price you pay to convince a potential donor to make a gift to your organization. The cost to acquire a new donor and donor lifetime value go hand in hand. These two metrics combined can be used in analysis to determine if your fundraising department is financially viable or not. We will cover this in much more depth in chapter 3, "Diving in with Donor Acquisition Cost."

To calculate your DAC you will want to include all expenses associated with your fundraising activities. This can include expenses to third party vendors, postage, staff salaries and other fundraising related costs.

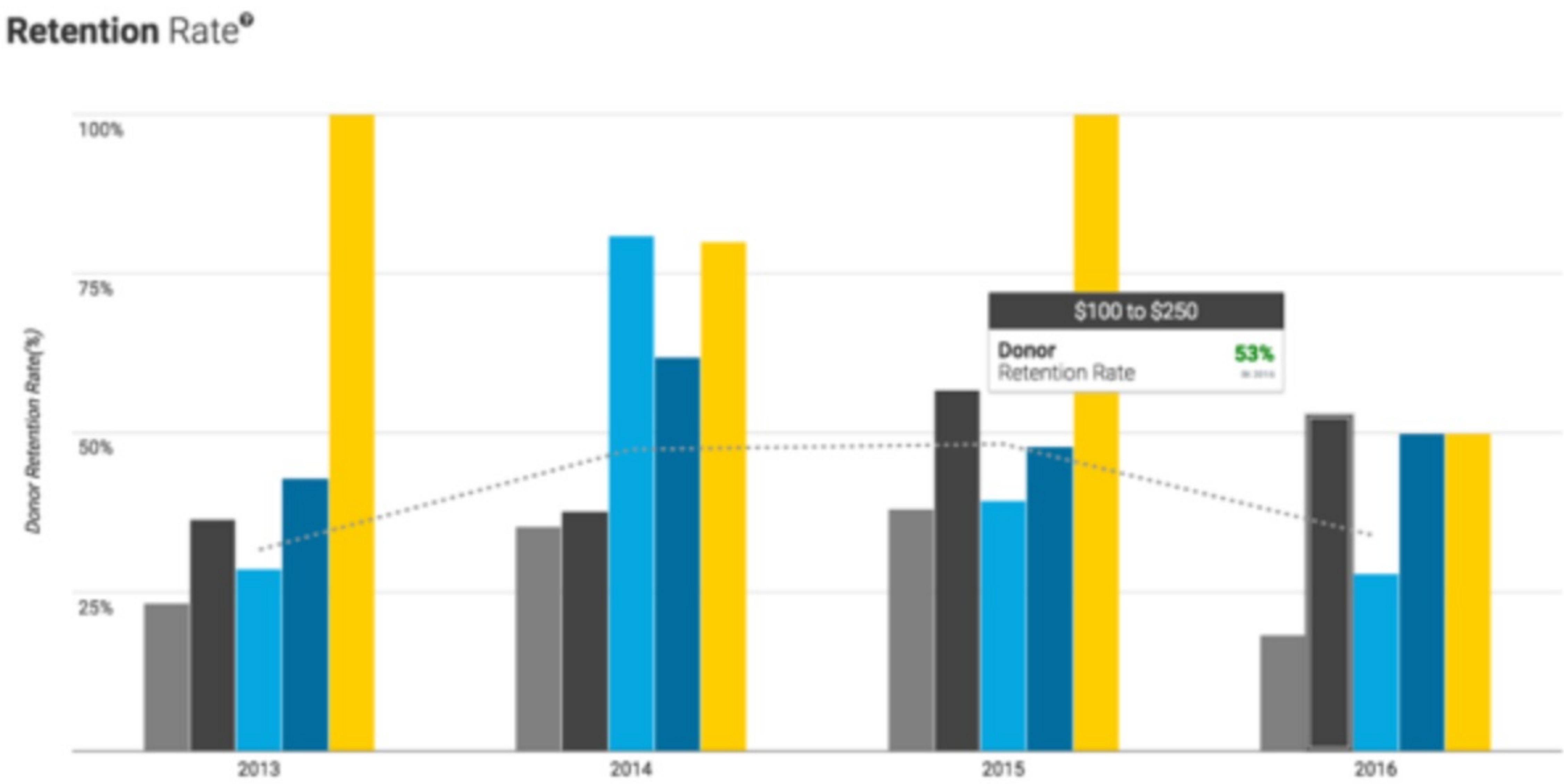
Ultimately your donor acquisition cost formula will simply be:

DAC = Total costs ÷ Total # of acquired donors

You'll interpret your DAC in a cost per donor context, i.e. "It cost us $25 to acquire each new donor from last month's direct mail appeal."

Section 4

DONOR RETENTION RATE

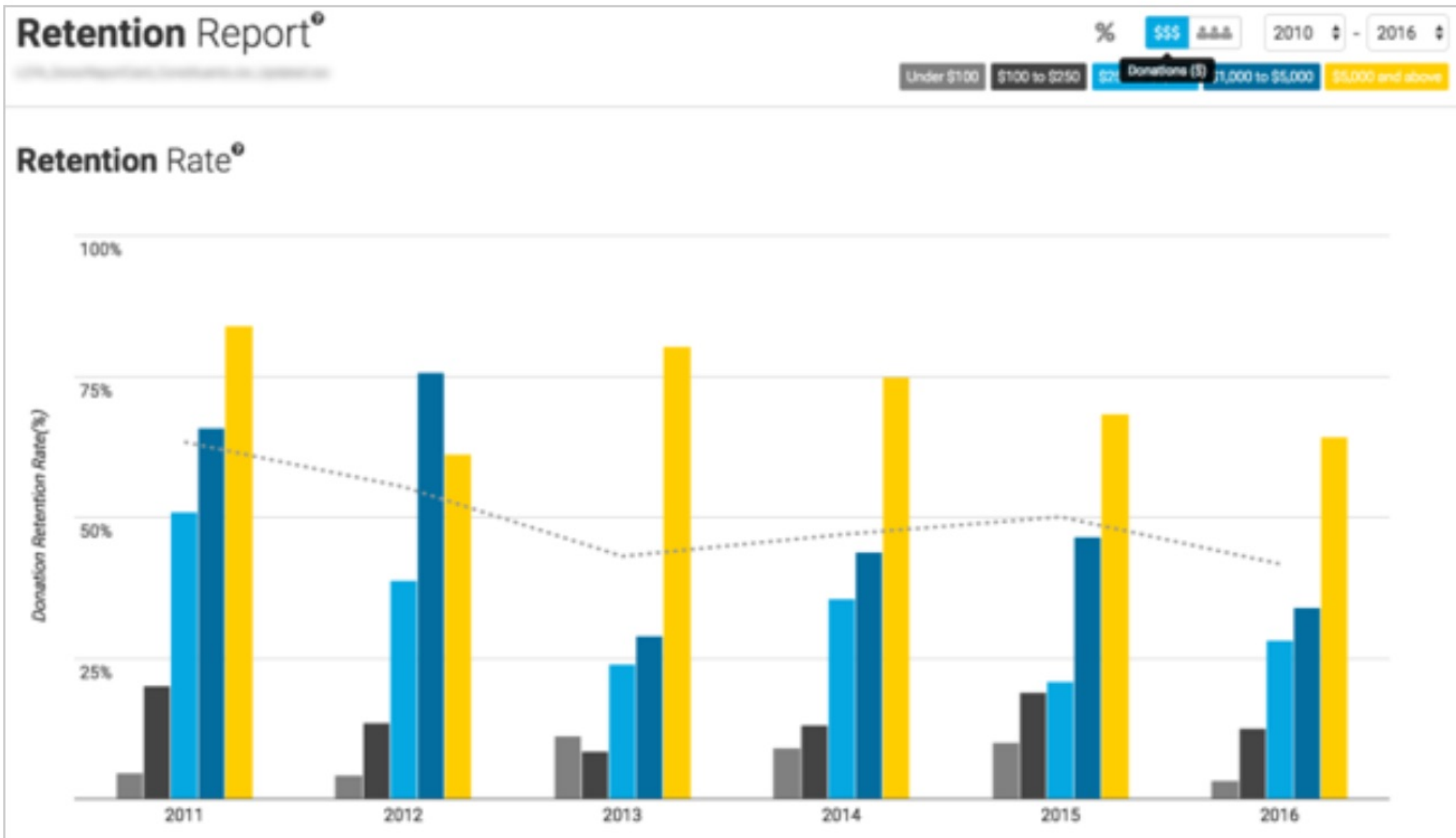


Simply put, donor retention rate is the number of donors you keep with respect to the number you had at the start of a given period of time. This does not count new donors, but it will included upgraded and downgraded donors.

To calculate donor retention rate you'll take all retained donors in a year and divide that by all donors from that year.

This equation is pretty simple, and I'm sure you've seen it covered on many other fundraising blogs and websites:

Donor Retention Rate = (Retained Donors ÷ All Donors) x 100



Donation Retention Rate is basically revenue renewal values – the dollars that renew – and is generally measured on an annual and/or cohort basis (think by appeal segment, or donor type). The important point here is that Donation Retention Rate focuses only on the money, the actual revenue you retain, rather than donors.

So if your existing donors start giving more through upgrades, your Donation Retention Rate might grow even if you've lost some donors. You'll generally want to have both donor and donation retention rates on hand for all your specific giving segments. That way you can monitor upgrades and downgrades as well as lapses and overall retention.

Again, this formula is pretty simple:

Donation Retention Rate = (Retained Donations ÷ All Donations) x 100

Section 5

UPGRADE & DOWNGRADE

An upgraded donor is a retained donor who gave more this year than last year. A downgraded donor is a retained donor who gave less this year than last year. These two segments of donors have an outsize impact on donation retention rates.

Section 6

LAPSED DONORS

Lapsed donors are donors from last year who did not give again this year to your organization.

Lapsed is also frequently referred to as attrition or LYBUNT (last year but unfortunately not this). You'll need to keep tabs on how this number is fluctuating during the calendar and fiscal year, and then of course, at year end for comparison.

We aren't the only ones preaching the importance of fundraising metrics! **Claire Axelrad was on to this 6 years ago!** Check out her blog post from 2011, Is Your Data Actionable?.

– CLAIRE AXELRAD

Principal, Clairification

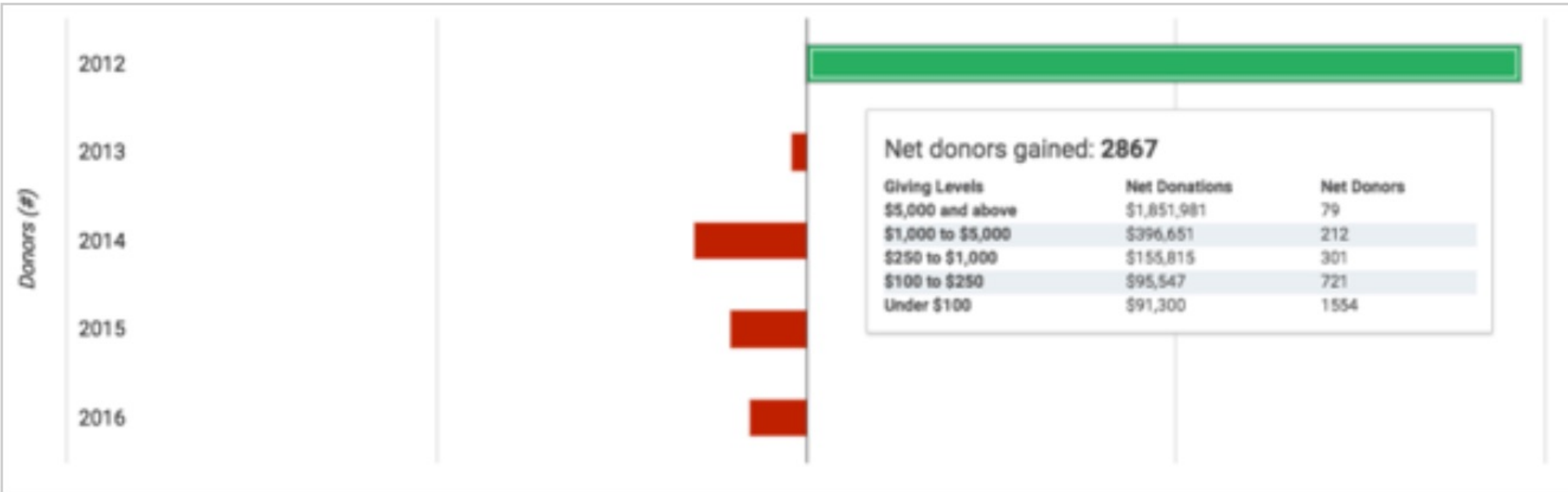
Section 7

REACTIVATED DONORS

A reactivated donor is an individual who previously lapsed, but gave again this year to your organization. Tracking and measuring reactivation rates can help you quantify the effectiveness of your recapture strategy.

Section 8

CHURN



Churn is a measure of the velocity at which donations or donors are growing (or contracting) each year. Churn looks at your acquired donors/donations and lapsed donors/donations in a particular year and calculates your net gain or loss for that period. It answers the question, "Are we bringing in more new donors than we are lapsing existing ones?"

This can be an eye opening metric for organizations that may have top line revenue growth but are actually shrinking. They may be growing donations, but they are not acquiring enough donors to overcome those who leave. It can be a telling sign that the organization needs to change strategy.

Section 9

USING THESE METRICS TO ANSWER QUESTIONS

The 10 metrics outlined above are worthwhile to keep in mind, but in all honesty, they are kind of useless without context. Most people aren't interested in looking at numbers and data, but they are interested in having pertinent information at their fingertips. Fundraising leadership, now more than ever, needs and relies on relevant data to help make strategic decisions. By keeping track of these key metrics you will help enable that.

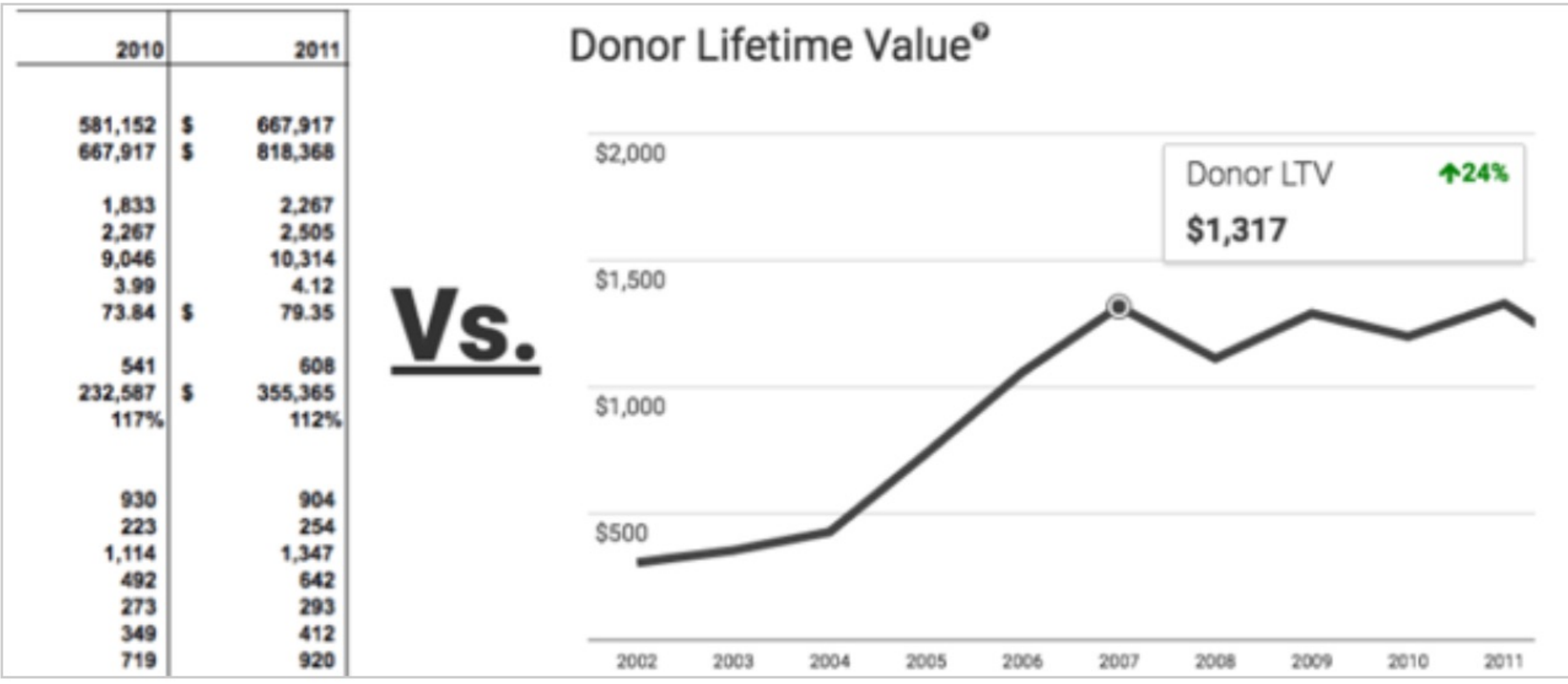
Remember, the 10 key fundraising metrics outlined above are meant to be metrics you should have on stand-by. As your organization buys into the idea of being more data-driven you will want to be able to quickly and seamlessly answer their questions. "Jane, did our recent appeal end up increasing or decreasing our total number of upgraded donors?" Someone will ask you that and you'll want to have that information available in seconds, not hours or days.

With that in mind, double check the reports that your CRM provides for you. Have you already created some Excel spreadsheets that will calculate some of those metrics? You might be surprised at what you find. Secondly, think about how you can share this information with your colleagues. Will a spreadsheet make sense to your direct report, or do you think she would prefer a graph?

Actually, let's dive deeper into that subject because all of these calculations and reporting are useless if no one uses them…

Section 10

PRESENTING TO COLLEAGUES, STAFF, AND THE BOARD



The final piece of the pie is presentation. Computers are great at reading spreadsheets. Humans, not so much. As you question, test and measure results, you'll want compelling ways to share what you are learning with colleagues and the Board. The key here is data visualization. Well done data visualization is data simplification.

"There's a big reason that people use the phrase, 'A picture is worth a thousand words.'

As Bill Franks, Chief Analytics Officer at Teradata and a Faculty Member at the Institute for Analytics reinforces, our brains are meant to see in pictures. He uses a really powerful example to illustrate this, a map of the United States. The Fundraising Report Card makes organizational fundraising data into graphs where intelligent design and unhabitual thinking can occur!

Think about it. A map is one of the most powerful visualization tools ever created! It shows relationships, relativity, and much more. The FRC is a map to past results which allow an opening to occur. With clients, the information provided by the FRC allows organizations culturally to adopt the act or ask strategy.

Like a map where you can immediately see the size of states, contiguous states, what state is part of what region, etc., the FRC lays out all the important focus points to redesign to achieve different funding results.

A current client said to me, **"I feel like you have given me a gift certificate to Home Depot. The information from the FRC allows me access to power tools that focus my organization and most importantly, have different conversations with my board and fundraising staff to achieve quantum results."**

– T.J. MCGOVERN, MPA

Principal, McGovern Consulting Group

Anyone can tell if a donor lifetime value (LTV) chart is going up and to the right. If it is, that is good. If it isn't, that is bad. Most of your colleagues and your Board will not be as interested in underlying reasons why LTV is changing for better or for worse. They simply want to know (from a high level) what is going on. Visualization can help in this quest.

You will almost certainly get posed with (or ask yourself) the question, "Has retention gone up or down this year?" You could impress your coworkers and direct report with an Excel pivot table spreadsheet that breaks down each giving segment and shows not only donor, but donation retention as well. Or, you could leverage some existing (and free) technology to help visualize that information. (P.S. that's what we've spent the past year building here for you to use for free.)

Time sensitive colleagues will be hesitant to dive into your Excel masterpiece, but if you present to them a simplified, visual representation of that data they will be more likely to buy in. Remember, well done data visualization is data simplification. Don't just create a bar graph for the sake of creating a bar graph. Put some thought into it, or leverage existing tools to create data visualizations that make sense.

Section 11

APPLYING THIS TO YOUR SHOP

We've talked a lot about why fundraising metrics are necessary to calculate and have on stand-by, and we've even pared down the AFP FEP Glossary of Terms from 68 metrics to 10. So what is next? How do you actually use this information?

Jennifer Filla offers up great advice for getting started with data analysis in her blog post, Getting Started in Data Mining (It's easier then you think!).

– JENNIFER FILLA

CEO and Founder, Prospect Research Institute

Take a peek at what reporting your existing CRM has. Can it produce spreadsheets on retained and upgraded donors? If the answer is yes, you're off to a good start. Did you create and Excel spreadsheet a few months back that keeps track of recaptured donor rate? Great! Dig that up and dust it off.

Please do keep in mind though that the **free version of Fundraising Report Card will calculate most all of these metrics for you automatically.** That doesn't mean you need to use it, but it is available to you for free.

Section 12

KEY TAKEAWAYS

1. Fundraising metrics are great, they help us answer our questions and guide strategy. But too many metrics and not the right ones simply become noise. They cloud our vision and actually get in the way.

2. As your organization buys into the idea of being more data-driven you will want to be able to quickly and seamlessly answer their questions. "Jane, did our recent appeal end up increasing or decreasing our total number of upgraded donors?" Someone will ask you that, and you'll want to have that information available in seconds, not hours or days.

3. As you question, test and measure results, you'll want compelling ways to share what you are learning with colleagues and the Board. The key here is data visualization. Well done data visualization is data simplification.

Chapter 3

DIVING IN WITH DONOR ACQUISITION COST

Getting Started

Donor acquisition cost is far from trivial, and that is why for chapter three we will take a deeper look into the importance of questioning, testing and measuring this key fundraising metric.

This is the first chapter in this eBook that takes a deep dive into a specific metric. This chapter, especially when paired with chapter four, will be geared towards application and best practices.

Let's get started!

Section 1

DONOR ACQUISITION WHAT?

"How much did this donor cost?"

There was an awkward silence on the other end of the line.

"I'm not sure, maybe $50, maybe $100." I was speaking with the Director of Development at a small nonprofit in Minnesota. "I think that donor came from our year-end appeal," the confounded fundraiser carried on.

One of our client's donations were growing year over year, and they wanted to figure out how to continue the trend. We helped them analyze their donor database and found that they were doing a good job of acquiring new donors, but a lot of donors were lapsing. We focused on developing a retention strategy to keep donors around after their first gift.

Taking in to account donor acquisition **cost, we realized for our client (like most organizations) it's much less costly to retain donors after their first gift than to acquire new ones.** By looking at donation data with Fundraising Report Card, we were able to pick up on the lapsed donors. Otherwise, our client may have focused only on overall growth and acquisition and missed lapsed donors entirely.

– EVE MARENGHI

Digital Analyst, Whole Whale

We were sharing screens and reviewing her Fundraising Report Card.

I was hovering over her $5,000+ donor segment. When we exported the data we noticed an individual who upgraded from $250 in 2015 donations to $5,500 in contributions for 2016.

I asked a bit differently this time, "Do you think it cost you more than $5,750 to acquire this donor?"

Her answer, an emphatic, **"No way!"**

This story represents the reality that many development professionals face. From small organizations raising less than $250,000 annually, to large, multi-national NPOs whose assets top $100 million, there is a general lack of awareness when it comes to donor acquisition cost.

Section 2
WHAT IS DONOR ACQUISITION COST

Donor acquisition cost, or DAC, is the price you pay to convince a potential donor to make a gift to your organization. You can think of this as simply all the expenses that are attributable to acquiring a new donor. This can include expenses to third party vendors, postage, staff salaries, and other fundraising related costs.

Ultimately your donor acquisition cost formula will be:

DAC = Total costs ÷ Total # of acquired donors

You'll interpret your DAC in a cost per donor context, i.e. "It cost us $25 to acquire each new donor from last month's direct mail appeal."

Note that in the example above we are also referencing DAC on a per appeal basis, "…from last month's direct mail appeal." Donor acquisition cost should almost always be broken down by fundraising campaign or activity. More on that a bit later.

Section 3

HOW TO CALCULATE DONOR ACQUISITION COST

Before we can get too deep into how you are going to leverage donor acquisition cost, we need to agree on how we are going to calculate it. Donor acquisition cost, unlike most other fundraising metrics, is loosely defined. "All expenses that are attributable to acquiring new donors." That wording is vague to say the least. It begs the question, what are "all expenses?"

There are two general schools of thought here:

1. Measure all fundraising expenses including staff salaries and overhead costs attributable to acquisition strategy

2. Measure all fundraising expenses not including staff salaries and overhead costs attributable to acquisition strategy

Remember, you can download our Ultimate Fundraising Donor Acquisition Cost Cheat Sheet to have in your back pocket when sharing this with colleagues.

Which is better? And, still, what are "all expenses?"

From our research here at FundraisingReportCard.com (and this is mainly empirical and experience based), if you are a small nonprofit (less than 5 staff or small revenues), you are better off calculating your DAC without including salaries or overhead costs. If you are a large nonprofit (larger staff, larger revenues) you should calculate DAC both ways, with and without salaries and overhead costs.

Smaller shops generally don't have the bandwidth to calculate DAC in both ways. If this is the case, save your time and focus on simply measuring "all fundraising expenses," and leave out salaried costs in your DAC calculation.

Larger shops should have a greater capacity (there may be a full-time data analyst on staff) to measure and calculate DAC in both ways. If there are 15, 20, 25 development staff members, it becomes increasingly clear why taking into account their salaried cost is important. Human capital is a massive expense, and not factoring in that cost when calculating DAC would provide a distorted perspective. With that being said, calculating DAC in both ways, with and without salaries and overhead, is recommended to provide more clarity down the road. More on that in chapter four of this guide.

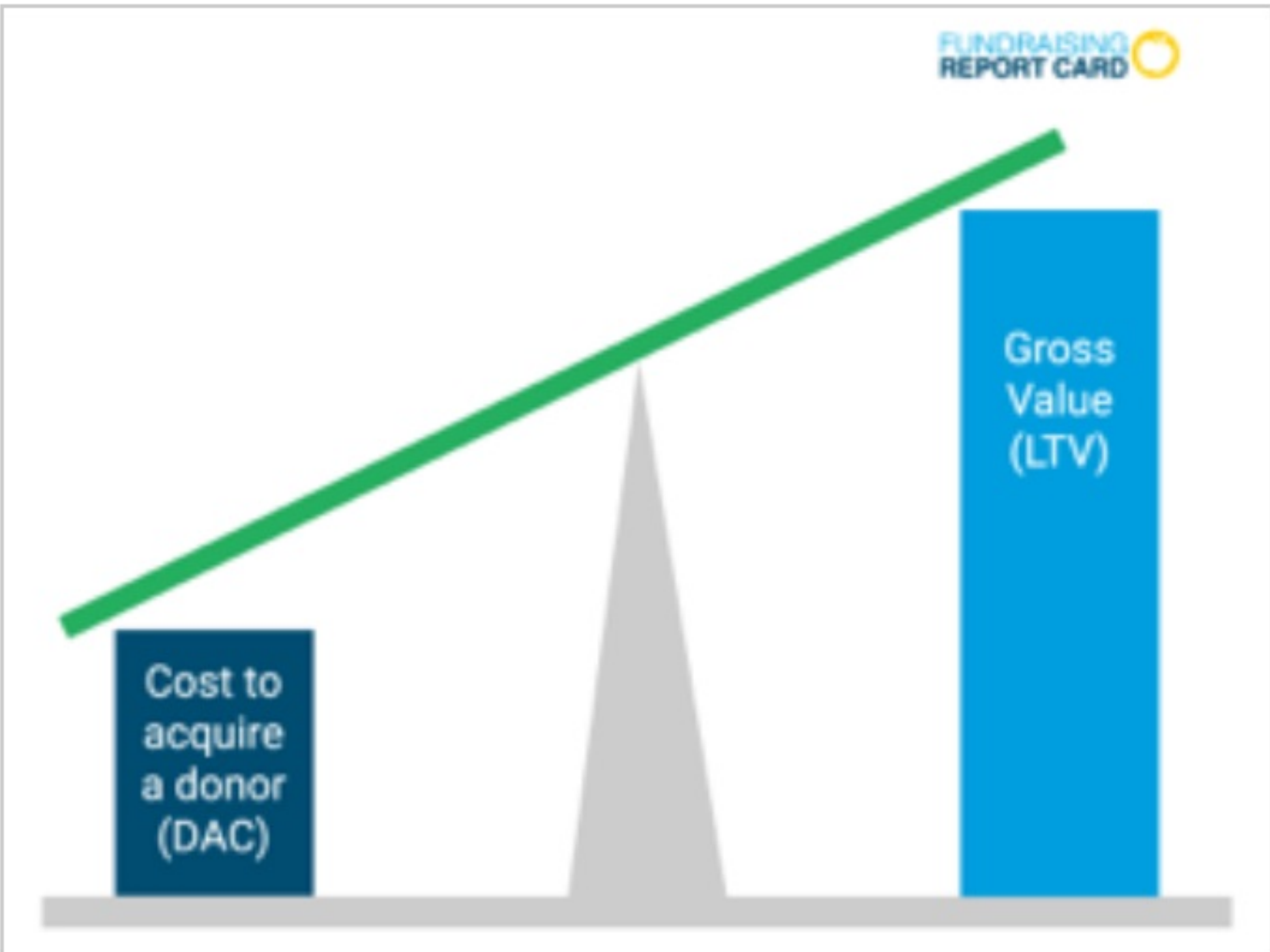
*There are quite a few **great resources** that help outline what fundraising expenses really are. Take a peek at overheadmyth.com and nonprofitaccountingbasics.org for example!*

The final question we still need to address is what are "all expenses?" When calculating donor acquisition cost you'll want to consider any and all fundraising expenses attributable to a specific campaign. You're not going to include the cost of the pen you use to take notes with, instead you'll focus on the direct expenses related to fundraising. **Here is a list common expenses you'll want to include:**

- Direct mail expenses (copywriting, design, mail handling, etc.)
- Campaign printing
- Postage
- Advertising
- Maintaining donor records (your donor management system)
- Conducting events
- Preparing materials (brochures, manuals, etc.)
- Email service provider expenses
- Software expenses
- Third party vendors

Section 4

Why measure donor acquisition cost Donor acquisition cost takes on meaning when you pair it with other fundraising metrics. Donor lifetime value, for example, goes hand in hand with DAC to determine the "business viability" of your fundraising efforts. Yet as a stand alone metric, donor acquisition cost has lesser meaning. That's not to say it is useless on its own (it isn't), it simply means that DAC provides more meaningful insights when combined with other data.



DAC on its own does provide some insight. It can help leadership break through the "gut feel" decisions being made about budget allocation. For example, comparing donor acquisition costs by channel can shed light on where spending is out of hand and where there might be room for expansion.

Take for example a for-profit company like Gap Inc. Gap markets to their consumers in multiple ways, online advertisements, TV, radio, print, etc. Someone (or a whole department) at Gap keeps track of customer acquisition cost (CAC) broken down by acquisition channel.

The consumer (i.e you and me) doesn't acknowledge which marketing channel we fall into when we buy clothes from Gap (did I click on a search ad or did I hear about a special on TV?). And we certainly don't care what the Gap's customer acquisition cost was (look, I just got these new pants!), but Gap is definitely keeping tabs on that. Because, at it's core, CAC plays a vital role in determining the profitability of that marketing channel. If a channel is profitable, Gap will invest more in it. If it isn't profitable, they'll pivot and try something else.

Now, apply that concept to fundraising. Just as consumers want to buy pants, donors want to donate. Your organization most likely has multiple fundraising activities during the year. Direct mail, email campaigns, events, maybe even search ads. When a donor is acquired you'll want to know not only which channel they came through, but also what the expense was to acquire them. That way, when you calculate your donor lifetime value, you'll be able to determine which fundraising activities are worth investing more in and which are worth pivoting away from.

Section 5

DONOR ACQUISITION COST BEST PRACTICES

You're going to want to capture and measure donor acquisition cost on a per campaign basis. As we touched on above, having this metric broken down by acquisition channel will empower us to find which fundraising activities are providing the best return on investment (ROI).

Yet, by this point you may be thinking, **"This all sounds good and well, but how do I actually organize and calculate this stuff?"** Our team thought of that as well, and that is why we are happy to share an Excel template that you can use today to start capturing, measuring and calculating your donor acquisition costs. You can download that right here. You'll notice the template can be customized, but by default it is setup for measuring direct mail acquisition cost.

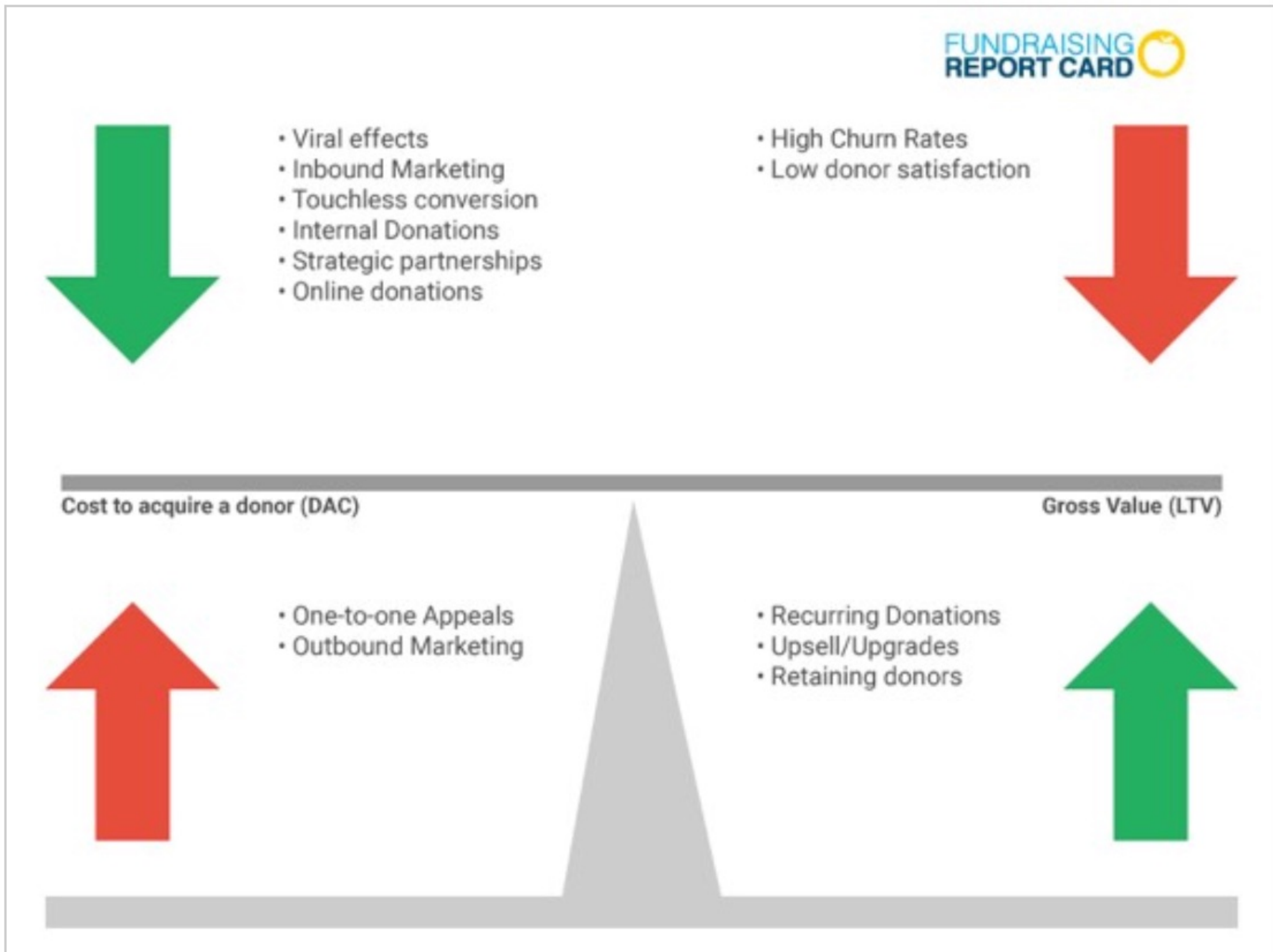
	A	B	C
1	Simple Donor Acquisition Cost Calculation		
2			
3	Input Variables		
4	Total mail sent	10,000	
5	Cost per unit	$0.50	
6	Conversion to donor %	1%	
7	No. of development staff	2	
8	Cost per employee per month	$7,500.00	
9			
10			
11	Flow	Qty.	Conversion %
12	Total mail sent	10,000	1%
13	Donors	100	
14			
15	Campaign expense	$5,000	
16	Total Headcount Costs	$15,000	
17			
18	Donor Acquisition Costs		
19	Without headcount costs	$50.00	
20	With headcount costs	$200.00	
21			

Most organizations keep track of DAC in an Excel spreadsheet (like the one above), and although I have been known to bash Excel in the past, it actually does a really fine job of calculating and storing relatively simple data.

We aren't going to be doing data visualization with donor acquisition cost, nor will we need to write some fancy equation to calculate it, and with that in mind, Excel becomes a great option for organizing and tracking DAC. Remember, you can download our template to get started measuring DAC today.

It's also helpful to keep in mind what affects donor acquisition cost. Certain fundraising activities can actually decrease DAC, while others increase it. That may sound obvious on the surface, but a lot of organizations overlook DAC decreasing initiatives.

Take for example an investment in revamping your online donation page. The up-front, or sunk cost will be large. It is not cheap to redesign or create from scratch an online donation page. But, think about the decrease in donor acquisition cost. If the page is "touchless," i.e no human being is involved to facilitate the donation, then the acquisition cost will be less than more high-touch efforts.



Section 6

KEY TAKEAWAYS

1. Donor acquisition cost, or DAC, is the price you pay to convince a potential donor to make a gift to your organization.

2. There are two ways to calculate DAC: with or without salaried and overhead expenses.

3. Donor acquisition cost paired with donor lifetime value can determine the "profitability" of your fundraising efforts.

Chapter 4

MEASURING FUNDRAISING ROI WITH DONOR LIFETIME VALUE

What Is Donor Lifetime Value?

Donor Lifetime Value, or LTV, is a prediction of how much money you can expect to receive from a donor during the lifetime of their giving to your organization (from first donation to last donation, from acquisition to lapse).

There are a few key pieces of information we need to discern from the definition above.

1. Donor lifetime value is a prediction.

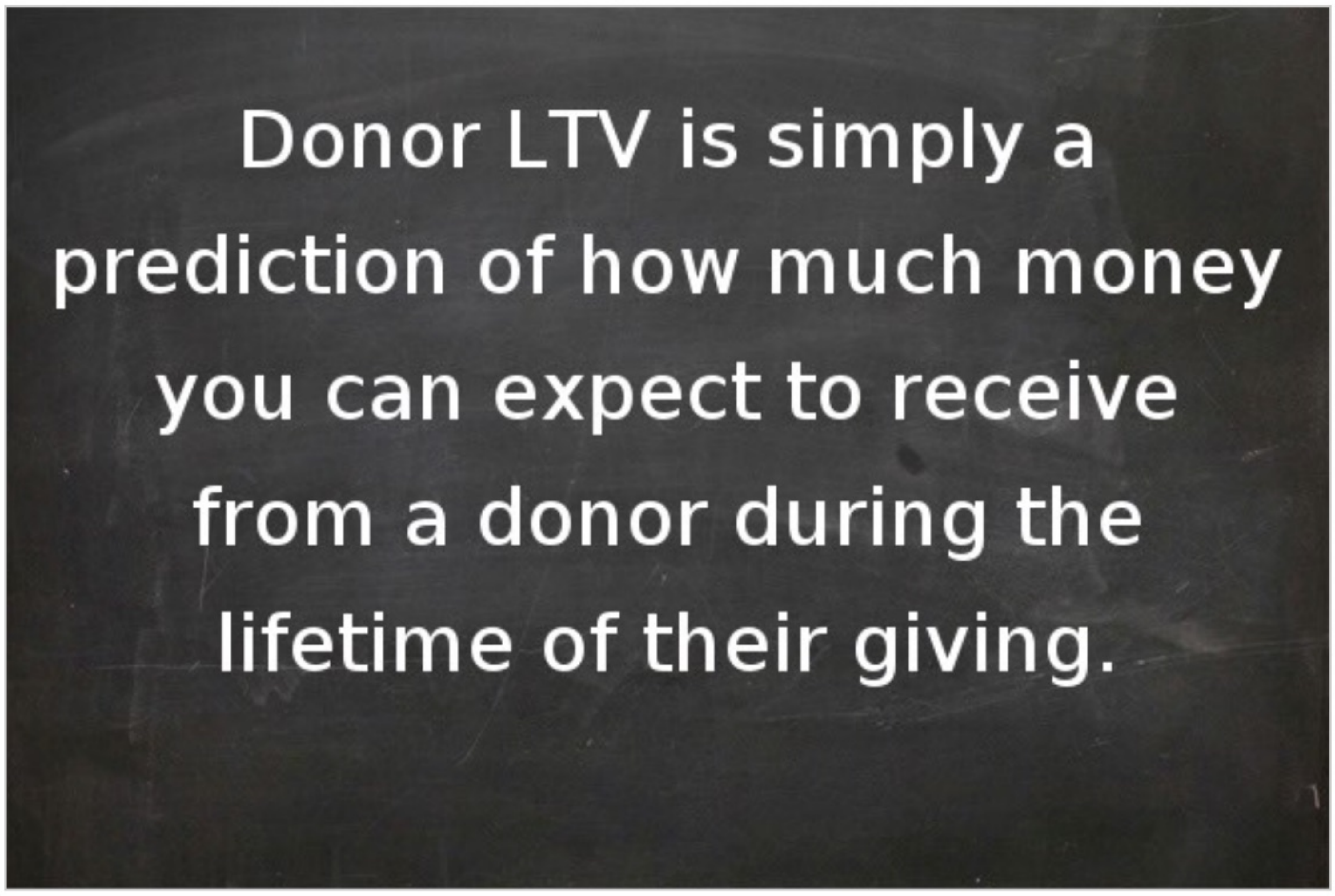
2. Donor lifetime value is a representation of the dollar value of a donor relationship.

- Please bear in mind that you will not actually calculate donor lifetime value on a per donor basis, rather you will calculate LTV across segments of your donor database.

3. Donor lifetime value is measured over the lifetime of a donor's giving to your organization.

It is important to understand that **LTV is nothing more than a prediction or projection of the value of a donor relationship.** That is to say, it is not set in stone. The more data you input into your donor lifetime value equation, the more accurate your predictions will become. More on this a little later.

Next, it is crucial to comprehend that donor lifetime value is used to assess the financial value of each constituent in your database. LTV is simply a measure of the dollar value your relationship with a donor will have during its entirety. Donor lifetime value answers the question, "from start to finish, how much revenue will a donor contribute to your organization?"



With that being said you will never actually calculate the lifetime value of a single donor (or at least you shouldn't at first). Predicting the future donations of an individual donor is not particularly worthwhile. Instead, you'll want to calculate donor lifetime value for your entire donor database (what is my average LTV?), or better yet for a segment of your database (what is my under $100 donor LTV?) This will prove more useful when it comes to using LTV to inform fundraising strategy.

Donor lifetime value is a really important fundraising concept. **Brady Josephson has been preaching its importance for years!** Check out his blog post from 2015, [What is Lifetime Value?]() to learn more about the different ways to calculate LTV.

– BRADY JOSEPHSON

Principal, [Shift Charity]()

Regardless of how you segment your LTV calculations, it is important to note that it is measured over the lifetime of a donor's giving. When you calculate donor lifetime value you'll be predicting the total amount of revenues a donor will produce. This means your lifetime value metric will include projections for future giving. That's part of what makes LTV such an important and increasingly salient metric to measure.

When you tie it all together, the definition for donor lifetime value isn't terribly tricky. It is simply a prediction of how much money you can expect to receive from a donor during the lifetime of their giving. What can muddy the water is the fact that there are dozens of ways to calculate this metric and myriad ways to misinterpret it. Let's try and clear some of that up.

Section 1

WHY CALCULATE DONOR LIFETIME VALUE?

With our definition in mind, let's answer the all important question: **why bother to calculate lifetime value in the first place?**

Donor lifetime value can be transformative for your fundraising office. Remember, this is a metric that is forward looking. It predicts the value of your organization's relationships with your donors into the future. With that information you might be able to more effectively budget costs for donor acquisition campaigns.

This leads to a concept called "business model viability." When you pair donor acquisition cost, or DAC, with donor lifetime value, you can start to gauge the viability of your fundraising department. Essentially, you should be able to answer the question, "Are we profitable?" with those two metrics in hand.

For example, if you are acquiring donors for a cost of $50 on average per donor, and your donor lifetime value is $75, you would be "profitable." But if DAC is $100 per donor and LTV is $75 you'd know that you're in the red and acquiring each new donor will actually incur a $25 loss.

Looking to the for-profit sector for evidence of LTVs usefulness proves powerful. Starbucks is a fantastic example of the importance of knowing and tracking donor lifetime value, or in their case, customer lifetime value. It will most likely come as a surprise to you, but the lifetime value of an "average" Starbucks customer over a 20 year period is north of $14,000. Let that sink in for a moment.

Over the lifetime of their relationship with Starbucks (20 years in this case) a typical customer will be worth $14,000 to Starbucks. That's unbelievable, but it's true. It helps justify the fact that Starbucks spends over $1,000 a person to acquire new customers. Not only is it a justified expense for a new customer, it's a no brainer.

Yet even with data validating Starbucks expense, it still seems incredulous. Try sharing this example with a colleague or coworker. They probably won't believe you. "There's no way I'm going to spend $14,000 at Starbucks," they may say. (Feel free to send them this reference as proof). But that's the point. Data and metrics are not biased, they're just numbers, and that is exactly why lifetime value can be so transformative.

If you had the lifetime value of an average donor at your fingertips, you'd be able to more confidently justify spending money to acquire them. Without that data you'll be more hard pressed to convince your colleagues to increase spending.

Section 2

WHAT IS MY DONOR LIFETIME VALUE?

Calculating your donor lifetime value isn't easy. But, it isn't impossible. In fact, far from it. Before we discuss how to calculate your donor lifetime value by hand, I want to recommend using a tool like Fundraising Report Card. **Fundraising Report Card calculates your donor lifetime value for you.**

With that being said, let's address the data you need to accurately create your lifetime value predictions. To calculate donor lifetime value you'll need three inputs:

1. Donor lifespan
2. Average donation amount
3. Frequency of donation

Let's break these three components down.

Donor lifespan is simply the length in time that a donor maintains a relationship with your organization. Determining this metric can be accomplished by analyzing many years of historical donation data. Although difficult to calculate, the definition should hopefully be simple to comprehend. Lifespan is nothing more than what is sounds like – the length of time a donor has a relationship with your organization.

Average donation amount is the average amount of a donation made to your organization by all donors. You may want to consider segmenting this input to calculate segmented lifetime values. More on that below.

This input is the most straightforward of the three, and you will want it broken down year over year (average donation amount in 2014, average donation amount in 2015, in 2016, etc.). This way you'll be able to calculate historical donor lifetime values and plot how they have changed over time.

Frequency of donation is yet another seemingly simple metric needed to calculate donor lifetime value. It is a measure of the total number of donations made in a time period (let's stick with years) divided by the total number of donors in that time period. For example, if your organization received 1000 donations in 2016 and those gifts came from 500 donors, your frequency of donation would be 2. Each donor (on average) is making 2 contributions. That's your frequency of donation.

Now, tying these three metrics up together will give us our lifetime value. **That formula looks something like this:**

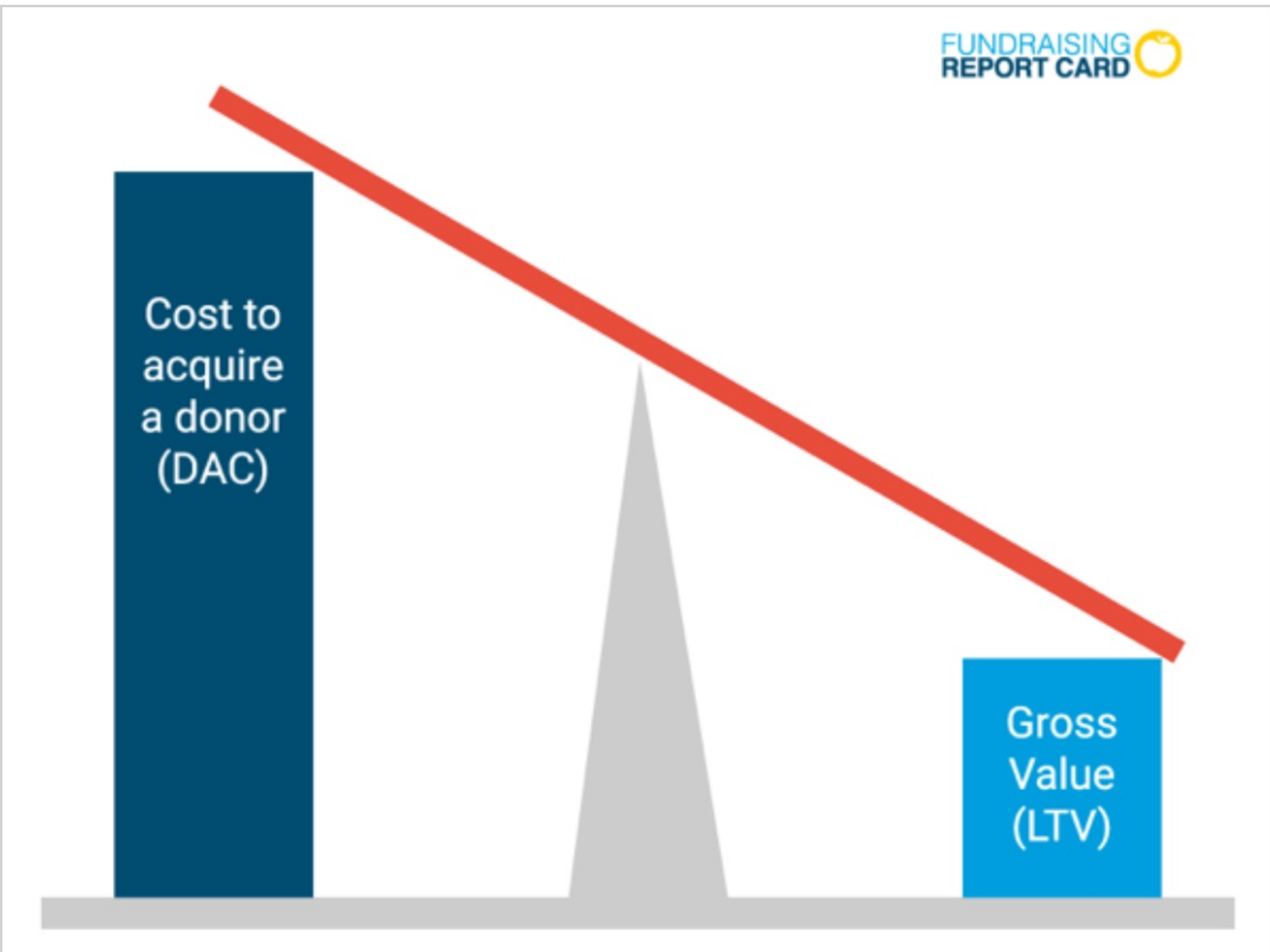
LTV = Lifespan × Average donation amount × Frequency of donation

Section 3

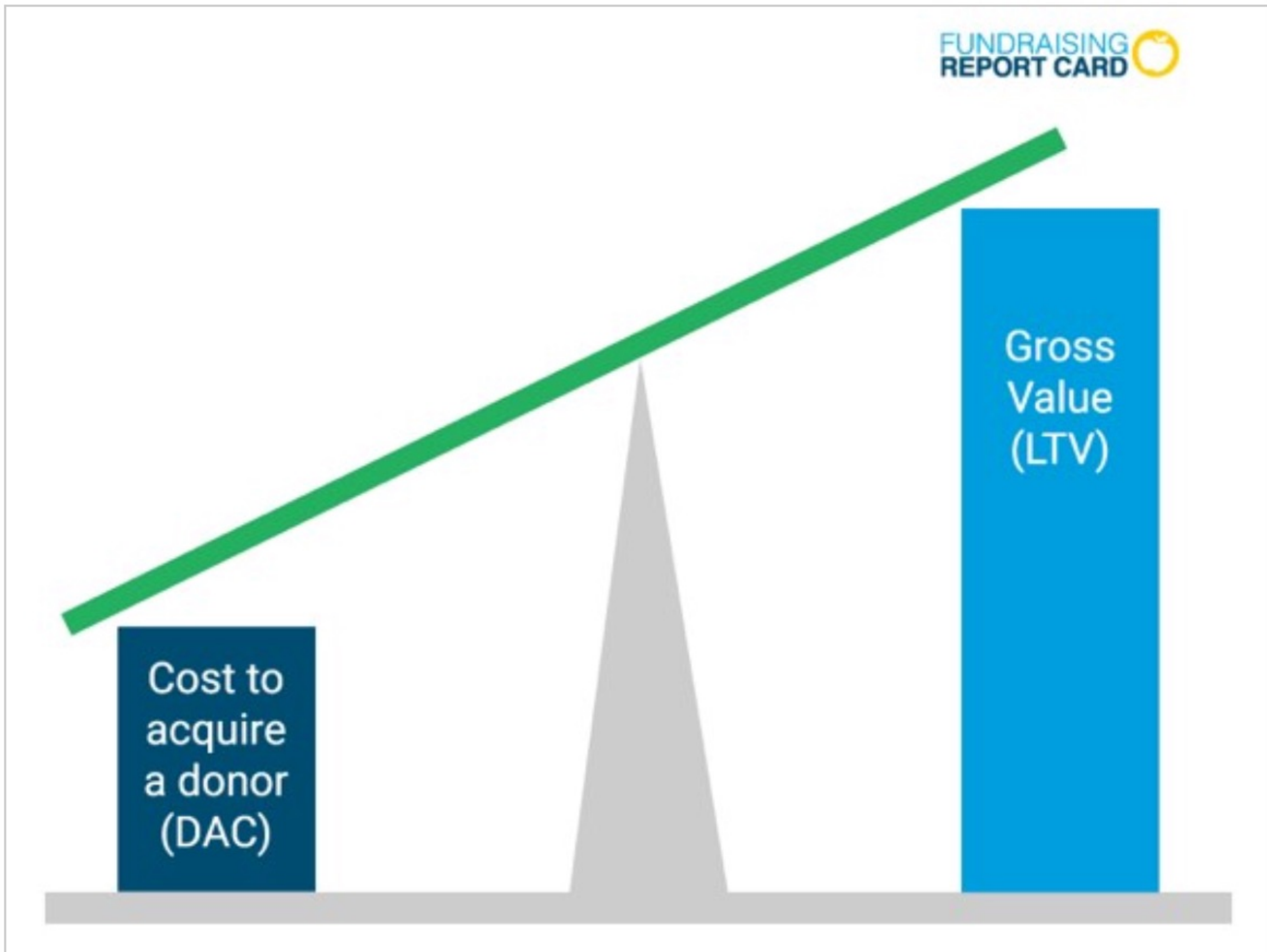
PAIRING LTV WITH DAC

Lifetime value on its own is useful, but where it really becomes powerful is when it is paired with donor acquisition cost. In chapter 3 of this guide we briefly discussed how donor acquisition cost and donor lifetime value go hand-in-hand to determine fundraising return on investment. Let's take a closer look.

High DAC **and low LTV is unsustainable.** If you have to pay $500 to acquire a new donor, and that donor over the lifetime of their giving will be worth $250, you will "go out of business" in a hurry.



On the opposite end of the spectrum, **low DAC and high LTV is "profitable."** $250 to acquire a $500 LTV donor is sustainable and profitable for the fundraising department.



These two metrics combined in this context can be unbelievably insightful. If your goal is to further your organization's mission then making sure your fundraising is "profitable" should be a primary concern.

But how do you actually use donor acquisition cost and donor lifetime value in practice?

SEGMENT, SEGMENT, SEGMENT

Talking about donor acquisition cost and donor lifetime value is easier said than done. Yet, there are a few ways to get the most value out of these metrics right now. Segmenting donor acquisition costs and donor lifetime values can provide you and your team with the information you need to make informed decisions.

It may seem counterintuitive at first, but starting with the big picture (overall donor lifetime value and overall donor acquisition cost), is actually a recipe for disaster. Instead, start with something more refined, more granular.

When it comes to segmenting DAC and LTV I suggest two approaches:

1. Segment by giving level
2. Segment by acquisition channel

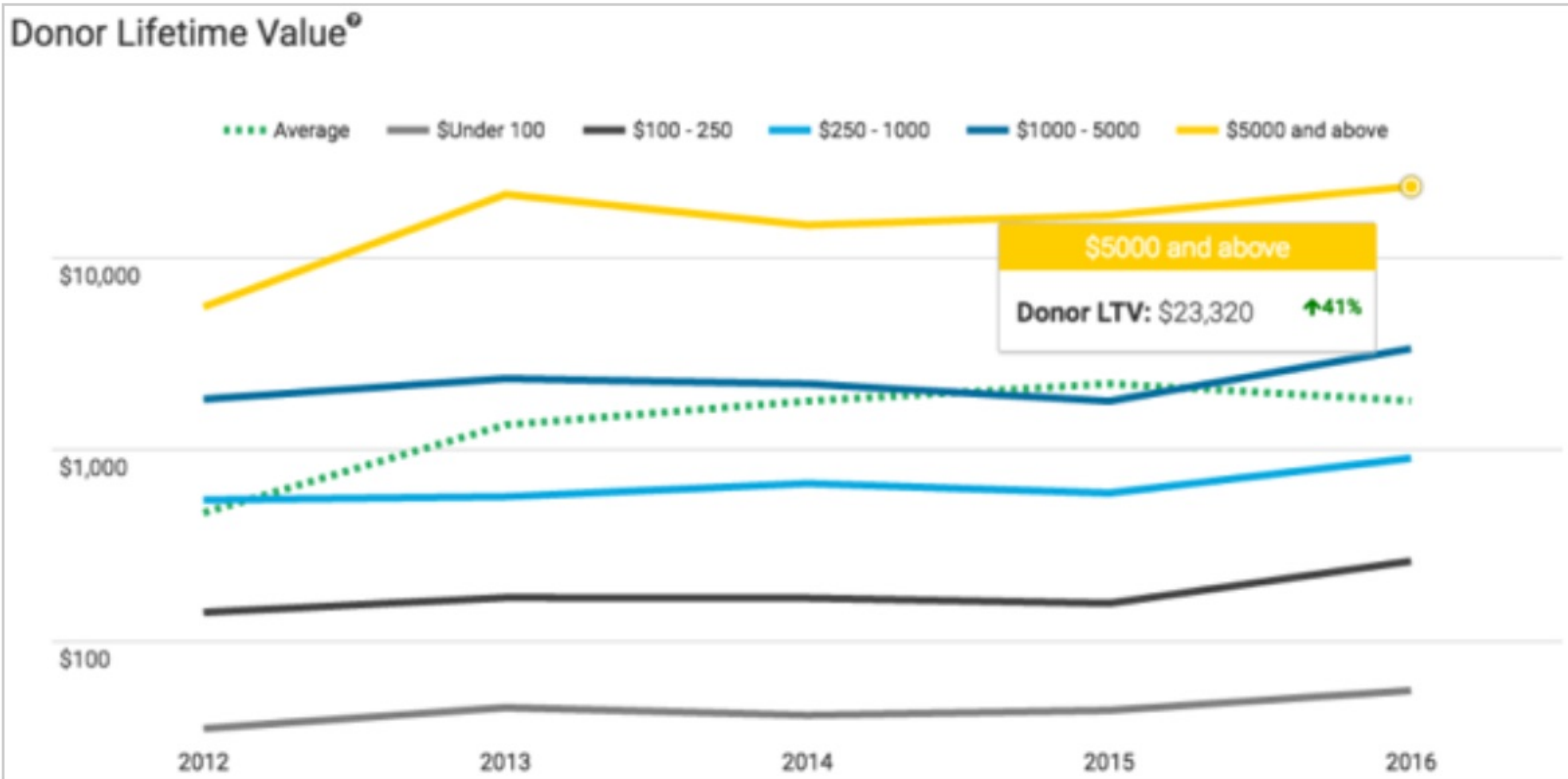
Our client had never segmented their donor base by giving level. **With the help of the Fundraising Report Card, we found out that less than 10% of their donors contributed 50% of their donations last year.** Segmenting by giving level informed who our client should communicate with, how frequently, and what capacity each segment had to give.

– EVE MARENGHI

Digital Analyst, Whole Whale

Section 4

SEGMENT BY GIVING LEVEL



Donors in your organization's under $100 giving segment will have far lower lifetime values than those that are in the $1,000-$5,000 segment. That makes sense because the two different giving segments will have different average donation amounts, frequency of gifts, and even lifespans. Plus, one really large donation could skew the lifetime value of all your donors. That is why segmenting LTV by giving level is a smart idea.

The same principle applies with donor acquisition cost. Under $100 donors should cost less to acquire then a new major donor, for example.

What is the benefit of comparing these segmented DAC and LTV metrics instead of the overall numbers? **Usability.** Knowing your overall DAC and LTV numbers is worthwhile, but not necessarily practical. At least not at first. Instead, focusing on your under $100 donor DAC and LTV presents more meaningful insight right now.

Imagine you knew exactly what your donor lifetime value was for an under $100 donor. With that information you'd be able to more decisively budget for a new acquisition campaign. And, with some of the tools we discussed in chapter 3 of this guide on donor acquisition cost, you'd be able to measure and track what your acquisition costs are. When the campaign is said and done you'd be able to compare the two metrics and calculate your fundraising return on investment.

Section 5

SEGMENT BY ACQUISITION CHANNEL

Which leads us to our second form of segmentation, by acquisition channel. We went more in depth on the subject in chapter 3, but donor acquisition cost makes sense to calculate on a per campaign, or per acquisition "activity" basis. DAC is easier to track this way. Plus segmented donor acquisition costs provide more insight and decision support when it comes to choosing where to make future acquisitions investments.

The same idea applies to donor lifetime value. Just as LTV will differ by giving segment (under $100 donor vs. $5,000+ donor) it will also be different depending on acquisition channel. A donor who is acquired via Facebook ads may have a shorter lifespan than a donor who is acquired via your annual event. That will have implications on their lifetime value which will inform where you invest more in the future.

This is a lot of information, and it may very well be overwhelming right now, but don't fret. If your organization has been keeping track of donations then you have access to this information. Simply load your donation data into Fundraising Report Card and view your donor lifetime value metrics. Keep in mind that if you can export lists of donations from your donor management system or CRM you'll be able to get those "segmented by acquisition channel" lifetime values as well.

Let the technology crunch the numbers. Your organization needs you to interpret them and make strategic decisions based on the findings!

Section 6
APPLYING THESE CONCEPTS AT YOUR SHOP

We've covered a lot in this section of the guide. Let's try and sum everything up into a few key, actionable takeaways that you can use at your shop today:

- Donor lifetime value is a fancy term for, "the financial value of the organization's relationship with a donor over the lifetime of their giving." Nothing more, nothing less.
- If you have access to donation records you can calculate donor lifetime value. Please consider using existing technology to help in that cause.
- Don't start with the "big picture." Instead focus on segmenting your donor lifetime value metrics by acquisition channel and especially by giving segment.

Chapter 5

BEYOND THE BASICS WITH DONOR RETENTION

72% Donor Retention!?

You could hear the ringing of high-fives on the other end of the line. "Wha-poosh!"

Mike, the Development Director even let out an, **"Oh yeah!"**

I set my water bottle down on my desk and chuckled; this meeting was a series of new experiences for me.

Over the past year or so, I've been lucky enough to work with hundreds, if not thousands, of organizations to dissect and analyze their Fundraising Report Cards. This meeting in early January of 2017, with a few members from the development staff at a mid-size human services organization was one for the ages.

I was demoing the Pro version of Fundraising Report Card and we had just landed on the retention dashboard. As we shared screens I paused on their organization's donor retention rate.

That was when chaos ensued.

"Zach, is that our donor retention rate?" was the first question I fielded.

"Absolutely," I said as I hovered my mouse over their segmented retention rates.

"Wait, wait, go back, what was it last year? Oh my, and what is it this year?"

The high-fiving started right then.

Donor retention is a really important concept for fundraising strategy. **Pamela Grow has been discussing its importance for years!** Check out his blog post from 2014, Nonprofit donor retention | The cheapest way to fundraise to learn tried and true ways to retain your donors.

– PAMELA GROW

Founder, GrowConsultingPA

This organization had never calculated their donor retention rate. That isn't to say they didn't recognize its importance, they simply had never prioritized calculating and analyzing it. They were overwhelmed with joy when they saw last year's retention rate was 72%, a **12% increase year over year.**

Everyone on the conference line knew how important donor retention rate was (thus the explosive reaction), yet it seemed strange to me that they hadn't been aware of their awesome ability to retain donors. This led me to wonder why donor retention rates are beloved and revered, yet so infrequently calculated, measured and tracked?

Let's take a step beyond the basics of retention.

Section 1

WHY RETENTION IS IMPORTANT?

Let's answer one simple question before we go beyond the basics: **Why is retention important in fundraising?**

Donor retention is the measure of how many donors from last year renewed their contribution to your organization this year. Of course you could measure retention in terms of other time periods, for example monthly or quarterly.

Moreover, donor retention rate is simply the standardized measure of retention. Retention rate reveals what percentage of your organization's donors renewed year over year instead of the total number of donors retained this year. While both are important, rate is simply easier to benchmark against and track.

Those are our definitions, but they still don't answer our simple question, **why is retention important?**

Let's look at a quick example.

Why Does Loyalty Matter?

Original Retentation Rate: 41%				Improved Retentation Rate: 51%			
YEAR	DONORS	AVG. GIFT*	TOTAL	YEAR	DONORS	AVG. GIFT*	TOTAL
Start	5,000	$ 200.00		Start	5,000	$ 200.00	
2	2,050	$ 220.00	$ 451,000	2	2,550	$ 220.00	$ 561,000
3	841	$ 242.00	$ 203,401	3	1,301	$ 242.00	$ 314,721
4	345	$ 266.20	$ 91,734	4	663	$ 266.20	$ 176,558
5	141	$ 292.82	$ 41,372	5	338	$ 292.82	$ 99,049
6	58	$ 322.10	$ 18,659	6	173	$ 322.10	$ 55,567
7	24	$ 354.31	$ 8,415	7	88	$ 354.31	$ 31,173
8	10	$ 389.74	$ 3,795	8	45	$ 389.74	$ 17,488
9	4	$ 428.72	$ 1,712	9	23	$ 428.72	$ 9,811
10	2	$ 471.59	$ 772	10	12	$ 471.59	$ 5,504
11	—	—	—	11	6	$ 518,75	$ 3,088
12	—	—	—	12	3	$ 570.62	$ 1,732
13	—	—	—	13	2	$ 627.69	$ 972
14				14	1	$ 690.45	$ 545

Grand Total from Original Donors: $ 820, 859

Grand Total from Original Donors: $ 1,277,208

Total Difference: $ 456,349

Just a small change in your donor retention rate can cost your organization thousands of dollars!

Note: Some numbers rounded

FUNDRAISING REPORT CARD

As you can see, a 10% change in retention rate can have an outsize impact on your long-term fundraising revenues. Changes in donor retention rate tend to have noticeable implications on your organization's bottom line, that's one of the reasons it's so important.

Think back to chapters 3 and 4 of this guide when we discussed donor acquisition cost and donor lifetime value. You'll remember that to keep acquisition costs down you want to retain as many donors as possible, and to boost lifetime value you want to increase donor lifespan (aka retain more donors). Retention is, in a sense, the backbone of your fundraising operation.

If retention rate is falling then donor acquisition cost is probably going up and lifetime value is most likely falling. But if the opposite is happening, if retention rates are higher this year than last, lifetime value is most likely increasing and DAC is probably falling.

Retention is important not only because it has real implications on your organization's bottom line, but because it has implications on the health and stability of your fundraising operation. There's a good reason retention was the fundraising buzz word of 2016. **It's important.**

Section 2

HOW TO CALCULATE YOUR RETENTION

As with most fundraising metrics, talking about them is much easier than actually calculating them. With retention though, we don't have a complex formula like we did with donor lifetime value. Actually, in the grand scheme of things retention is pretty easy to equate.

Let's say you wanted to calculate your donor retention rate for 2016. To do that you'll need two values:

1. X = Total number of retained donors in 2016
2. Y = Total number of donors in 2015

Your formula will look something like this:

Donor Retention Rate = X ÷ Y x 100

For example, if your organization had 1000 donors in 2015, and 500 were retained in 2016, your 2016 donor retention rate would be 50%

Donor Retention Rate = 500 ÷ 1000 x 100 = 50%

Let's also briefly touch on how you would go about calculating donation retention rates as well. Your inputs for that formula will be similar:

1. X = Total amount of retained donations in 2016
2. Y = Total amount of donations in 2015

Your formula will look something like this:

Donation Retention Rate = X ÷ Y x 100

For example, if your organization received $1,000,000 in total donations for 2015, and in 2016 $500,000 of your donation revenues came from retained donors, your 2016 donation retention rate would be 50%

Donation Retention Rate = 500,000 ÷ 1,000,000 x 100 = 50%

Calculating your overall retention rates is not too difficult. It may be more of a challenge to determine what your actual counts of retained donors and donations actually are. **Keep in mind tools like Fundraising Report Card will crunch those numbers for you.**

Section 3

ANALYZING YOUR RETENTION RATES

After calculating your overall retention rate you'll most likely want to know "how good is it?" This is a natural human reaction and one that I actually endorse (it's healthy to see how your organization compares to its peers), but it's important to not to fall prey to a few common analysis mistakes.

- Donor Retention isn't a number, it is an indicator of behavior.
- There is no magic number, retention varies by organization and size.
- Poor acquisition can ruin donor retention.

Donor Retention isn't a number, it is an indicator of behavior.

Okay, retention rate obviously is a number, but it's important to remember there is also a human side to this metric. Once you have your retention rates in-hand, you and your team should be asking these types of questions:

- What are we as an organization doing to cause donors to stay?
- What are our donors doing that's contributing to their staying?
- How can we better manage our donor relationships to make sure it continues?
- What are we as an organization doing to cause donors to leave?
- How can we better manage our donor relationships to make sure it happens less frequently?

Simplifying retention, that's Claire Axelrad's goal! **Claire has been preaching the importance of increasing donor retention for years!** Check out her blog post from 2014, Nonprofit Donor Retention is Not as Hard as You Think.

– CLAIRE AXELRAD

Principal, Clairification

Dissecting what is behind the number will ultimately help you figure out what changes it. Retention rate is a storytelling metric — go beyond the decimal points and figure out what effects it.

There is no magic number, retention varies by organization and size.

Many believe there is a magic retention standard that they need to achieve. "We need at least 80% retention," some will say. In reality, retention rates will vary by sector, size, and even region.

Comparing your organization's retention rate to a national average is a good place to start, but it's far from the end all be all.

Instead of national averages, many savvy fundraisers analyze their historical retention metrics. Looking for trends in retention rates is more valuable than seeing how you stack up to a national average. **Remember, your retention rate measures how well you're handling donor relationships. This is something we can all get better at.**

Keep this in mind when presenting retention rates at team meetings or to leadership.

Knowing how to compel your audience with data is more of an art than a science. Most people still have negative associations with numbers and statistics—unpleasant memories of boring math classes, intimidating technical concepts, or dry accounting. That's a shame, because the message behind the numbers can be so enriching and enlightening.

The solution? Help your audience understand the "so what," not the numbers. Ask: Why should someone care about your findings? How does this information impact them?

– JAKE PORWAY

Founder, DataKind

When you go to share your current retention rate with the Vice President or Director of Development make sure you have last year's retention rate with you too. You'll want a few years (I'd recommend 5) of retention rates to help show trends in overall retention efforts.

If you want to compare your retention to others, choose benchmarks from like-organizations within your industry. Fortunately, here at the Fundraising Report Card we are working on calculating all those standards for you. Answering the question, "How does our retention rate compare to the rates of other small animal shelters in our region?" makes more sense than simply knowing where you stack up compared to the industry at large.

Give us some time, but that is what we are striving to provide for you with Fundraising Report Card!

Poor acquisition can ruin donor retention

Poor donor acquisition can affect donor retention rates. Many organizations invest heavily in acquiring new donors but often these donors simply aren't the right "fit." The saying, "if we don't acquire, we will expire," was recently shared with me and epitomizes this dynamic. <u>Before assuming you have a retention problem, take a look at recent acquisition efforts.</u>

Looking at donor retention rate by giving level and acquisition source can bring clarity to this issue. Look at retention rates among annual donors, mid-level donors, and major donors. Are there any patterns in who stays and who leaves? Calculate retention rates for your direct mail campaign, your email appeal and your annual gala. Do some activities retain more donors than others?

By doing this you'll be able to see how retention varies among your constituents and pinpoint which activities positively affect retention efforts. Major donors tend to be retained at a much higher level than annual donors, for example.

If this is the case in your data, it could be a sign that investing more money in acquiring annual donors isn't actually worth the cost. The goal in the end is to bring in donors to whom you can provide value while they also provide value to you. Segmented retention rates can help you get a clearer picture of how this is playing out in your own data.

When leadership asks for updated retention metrics at the end of the first quarter, come prepared with segmented rates that provide more clarity. Transforming and refining your data into actionable metrics is crucial to help leadership with strategic decision making.

Section 4

HUMAN SIDE OF RETENTION, RELATIONSHIP BUILDING, PLANNED GIFTS AND MORE

Donor retention has implications well beyond the numbers in a spreadsheet or the graphs in your Fundraising Report Card. Retention has human implications.

Donors who consistently make contributions to your organization (think donors who have been retained 3 or more years in a row) are good candidates to have exploratory major gift or planned gift conversations with.

Patterns in historical giving can be highly indicative of major and planned gift prospects. When you pair the insights that performance metric segmentation provides you (i.e. identifying your 3+ year retained donors) with other tools and services such as wealth screening or donor surveys, you begin to create a strategy for identifying, engaging and receiving major and planned gifts.

Retention and retention rates are great to graph and keep track of, but never overlook the constituents that make up your data points. **They are real people, real donors, they have real relationships with your organization.** Their historical giving patterns should be explored and understood to help identify who you should be talking to.

Section 5

APPLYING THESE CONCEPTS AT YOUR SHOP

We've covered a lot in this section. Spreadsheets, graphs, major gift prospects — you see retention has implications all across your fundraising operation. How can you take bits from this section of the guide and start applying it at your shop today, though?

- Calculate your retention rate from the past calendar or fiscal year. Recall the story at the beginning of this section — you might be pleasantly surprised with the numbers you see!
- Avoid common retention analysis pitfalls. Look beyond the decimal points and percentage signs to understand the story your donors are trying to tell you. Segment your retention rates to get a more granular understanding of giving trends.
- Leverage retention to help identify major and planned gift opportunities. Long-time retained donors are great prospects for exploratory phone calls.

Chapter 6

APPLYING CONCEPTS WITH DIRECT MAIL METRICS

Bringing Everything Together

Well, dare I say it, we are finally here at the last chapter of the Data-Driven Fundraisers Reference Guide. We've covered a lot up to this point.

In this chapter, we will take bits and pieces from all the previous chapters of the Data-Driven Fundraisers Reference Guide and walk through a real-world example. We will go through a step-by-step case study of sorts.

My hope is that after reading this section you will feel more confident in your ability to produce data-driven fundraising campaigns, and measure their effectiveness in both the short and long-term. We've covered a lot leading up to this final chapter of the guide, and this is the chapter that ties everything together.

Let's get started!

Section 1
CULTURE AND INFRASTRUCTURE

Think back for a moment to chapter one of this guide. In that section we talked in depth about two overarching themes: **culture and infrastructure.** In order for data-driven practices to take place, you need an organizational culture that not only accepts questioning the status quo, but endorses it. You'll also recall that in order to effectively measure and monitor metrics you need infrastructure that supports your quest to dive deeper into your data.

Steve MacLaughlin goes into much more depth on the importance of culture in his book, Data Driven Nonprofits, but I took away one key passage from his writing.

Steve suggests that there are "ABC's of data-driven culture adoption." They are:

- Acknowledge the current culture
- Baby step behaviors
- Culture aligns with strategy

Culture isn't set in stone, but it also doesn't change instantly.

Our culture conversation leads us to one of the most challenging problems non-profits face when trying to shift towards being data-driven: **the lack of infrastructure to efficiently and effectively carry out tests, record data and validate hypotheses.**

We discussed the chicken and egg problem back in chapter one. You need an organizational culture that endorses questioning, testing and measuring. At the same time, you need the people, tools and resources to actually to do that effectively.

Back in chapter one, I suggested that you try to bring together a data-driven culture and infrastructure at the same time.

Let's actually go about doing that now in this example…

Section 2

WHO SHOULD I MAIL TO?

Before we go too far into this direct mail case study, let's define what type of direct mail appeal we are sending. For the purposes of this walkthrough we will be **preparing and measuring the results of a renewal campaign**, not to be confused with an acquisition campaign.

Now, think back to our definition of data-driven fundraising: fundraising that is compelled by data, not intuition or gut-feel. We went as far to suggest that data-driven fundraising is simply the application of evidence-based practice (EBP) in the fundraising field. We defined evidence-based practice as being characterized by three core components:

1. Having a question about something
2. Testing that something
3. Recording and measuring the results of that test

Okay, with all of that in mind, let's establish our goal. Once we do that, we can figure out what our question is (first core component of EBP).

For the purpose of this example, let's say our goal is to **maximize our return on investment.** If we've budgeted $2,500 to spend on direct mail renewal appeal then we'd like to see a return on that investment that far outnumbers $2,500 in both the short and long run.

The first question that comes to mind for me is, "Which segment of donors should we send a direct mail renewal appeal to?" With $2,500 to spend, **focusing in on the right subset of donors will be critical for maximizing ROI.** I've never been a huge advocate for throwing stuff against and a wall and seeing what sticks, and with only $2,500 to spend, that would be a poor use of budget.

The only way to get a data-driven answer to this question is to test-send appeals to different segments of our donors and see how they perform. Of course, we will need to record and measure the results of those tests to determine which segment deserves our full investment and attention.

Section 3

HOW DO WE TEST THIS?

Let's begin by defining our testing segments.

I've preached in the past about how your donors' historical giving data can be mined for insights into their trends and behaviors. Segmentation by giving level (i.e. under $100 or over $1,000), and segmentation by performance metrics (i.e. retained, acquired, reactivated), can be leveraged to create personas for your constituency.

Since our question is "Which segment of donors should we send a direct mail renewal appeal to?" I would immediately gravitate towards these three basic segments:

- Newly acquired donors giving $1,000 or less
- Retained donors giving $1,000 or less
- Reactivated donors giving $1,000 or less

I would test these segments because acquired, retained and reactivated donors all have different "stories." Each segment of donors has a different reason for why they contributed to your organization. These different stories could potentially have huge implications on how well they receive and respond to a direct mail appeal. For example, you may find that your retained donors prefer a phone call over a piece of mail.

Who knows? That's what we are about to test and find out.

A few paragraphs earlier we briefly discussed the importance of infrastructure. Now let's put more meat on the bones.

There are a few tools I'd recommend having access to at this point:

1. Your donor management system
2. Fundraising Report Card account
3. Microsoft Excel or Google Sheets

If you can, export and load your donation data from your donor management system into your Fundraising Report Card account. Head over to your acquisition dashboard, then retention dashboard, and finally your reactivated dashboard. On each, export lists of all donors under $1,000. (If you need help doing this, take a look at our Help Center documentation or use the live-chat to get support.)

Take those lists and merge them with your donor management system in Excel or Google Sheets.

You should now have your three lists to test, and hopefully that took only 30 minutes or so. It's important to note that in order to test these three lists you will need to negotiate a small preliminary send with your direct mail firm. They will need to send your appeal to a subset of each of the segmented lists. Once they have done that, we can measure the results of the preliminary send and determine where the rest of your investment will go.

Section 4

HOW TO MEASURE EFFECTIVENESS

How do you know you are measuring the right metrics? Harvard Business Review has a great article titled, Beware of Vanity Metrics. It's worth a read in addition to this section of the guide!

We've come up with our data-driven question, segmented our database into three lists and are one step closer to sending out our direct mail renewal appeal. But first, we need to crown a winner of our preliminary send. How do we know which segment performed best?

When it comes to planning and measuring the success of a direct mail appeal there are really **four key metrics to measure.**

However, before those metrics, there's one concept that we have to briefly discuss: **vanity metrics.** Vanity metrics are what they sound like – metrics that appear nice, but don't actually help you with strategy.

Vanity metrics are dangerous. In our quest to be data-driven, **we need to focus on information that is useful and dispose of data that takes away our focus.**

When it comes to direct mail this can be tricky. Not because our analysis is overly complex, but rather because the data we need to analyze is in the direct mail (or caging) company's database.

Analyzing direct mail performance is tough. If you've done direct mail appeals in the past you may be familiar with reports from the 3rd party vendors that tout how successful a campaign was. You might recognize sentences that read, "you received an above industry average response rate of 2%, and we received donations from 118 donors who renewed."

If you have access to these reports, be wary. I'm not suggesting the statistics are inflated or false, I highly doubt that. Rather, it is important to recognize that these are simply vanity metrics.

When it comes to measuring fundraising return on investment, response rate and renewed donors are too simplistic and provide an extremely limited scope for analysis. Neither one of these metrics on their own can truly benefit you and your team when it comes to measuring return on investment.

That is where our four metrics come in.

Our four metrics are actually broken down into two sets. **For short-term analysis we will analyze:**

1. Donor acquisition cost
2. Average gift amount

And for long-term analysis we will look at all four:

1. Donor acquisition cost
2. Average gift amount
3. Donor lifetime value
4. Retention rate

Donor acquisition cost

We've talked about donor acquisition cost (DAC) at great length in this guide. As a refresher, DAC is the amount of money spent to acquire a new donor. To calculate DAC, you take the sum all the costs of appeals and marketing over a given period, potentially including salaries and other employee-related expenses, and divide it by the number of donors that you acquired in that period.

In the context of a direct mail renewal campaign DAC may seem pointless. "We've already acquired the donor, we already know their DAC." This is true to a degree. You know their acquisition cost from last year, but what about this year?

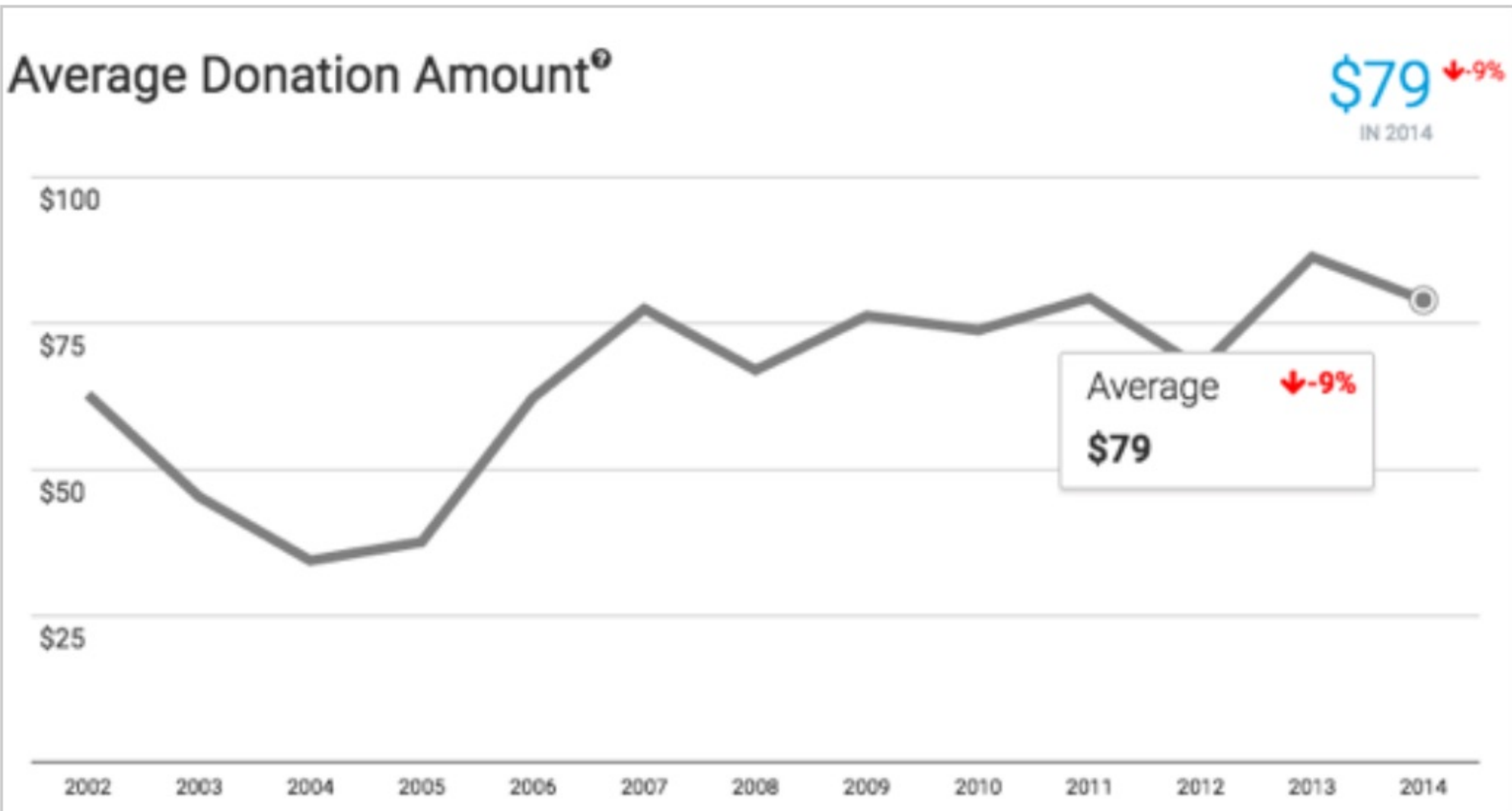
When it comes to renewal you will absolutely want to track donor acquisition cost. **It may help to think of renewal as simply re-acquiring the same donor. There are still costs in that effort.**

DAC = Total costs ÷ Total # of acquired donors

I recommend tracking donor acquisition cost because it takes into consideration response rate, but also puts things in terms of dollars spent. For example, if one of our three segments has a drastically higher response rate than the other two, it will have a much smaller DAC. As response rate goes up, DAC will go down. But looking at DAC instead of response rate will give us a dollars and cents perspective on how much we can afford to spend on mailers.

DAC simply helps frame your return on investment mindset in a way that response rate can't.

Average donation amount



The second metric we will want to calculate is average donation amount. Again, we will want to do this for each of our three segmented lists, just as we did with DAC.

If we only measured DAC we might get tricked into thinking that the lowest acquisition cost list is the best list to send to. You'll recall that we always want to interpret donor acquisition cost with donor lifetime value, yet in this case, since we are only analyzing our donors behavior over the course of one transaction, we will use average gift amount.

We'll want to compare our three segmented lists by both of these metrics to gauge which has low acquisition costs and high donation amounts.

In the long-run we will also want to consider two more metrics: donor lifetime value and donor retention rate.

Donor lifetime value

As we've talked about in the past, donor lifetime value (LTV) is more telling than average gift amount. Where average donation amount provides you with a snapshot in time (the size of an average gift at this exact moment), donor lifetime value tells you a more compelling story (the amount of revenue an average donor produces over the lifetime of their giving).

During our preliminary send to the three lists we cannot calculate lifetime value. But in the long-run, over the next 3-5 years, we will want to track the LTV of each segmented list. That is how we will be able to track the long-term return on investment we are looking for.

You might recall that calculating LTV can be a bit difficult. The formula is straightforward, but getting some of the inputs (donor lifespan for example) can be tough.

LTV = Lifespan × Average donation amount × Frequency of donation

But remember, this is one of the metrics that the Fundraising Report Card will calculate for you. You'll find LTV on the same page as average donation amount, making it easy to analyze both at the same time.

Donor retention rate

Last but not least is retention rate. How many of our direct mail donors are sticking around and donating next year or the year after that? Even when considering a direct mail renewal campaign it is important to track retention rates. Don't assume that just because a donor made a contribution to your organization last year that they will do the same this year.

You'll want to track and measure retention rates over the next 3-5 years to figure out which segment of your donors are sticking around and which are lapsing.

Keep in mind, this is another one of the many metrics the Fundraising Report Card calculates for you. You'll find it on the Retention Dashboard page.

Okay, those are our metrics. Four in total, but two that we are going to focus on for right now.

Section 5

OKAY, BUT REALLY, WHO SHOULD I MAIL TO?

You've come this far! Now, let's see how we did with our renewal campaign.

Our preliminary send went to three segments:

- Newly acquired donors giving $1,000 or less (list A)
- Retained donors giving $1,000 or less (list B)
- Reactivated donors giving $1,000 or less (list C)

Within a month or two of sending the preliminary appeal, calculate the donor acquisition costs and average donation amounts.

Before we get into the equation, let's assign a few constants:

- The direct mail firm sent 250 appeals to each of the segmented lists (750 mailers total)
- The cost per piece of mail is $.65
- Total cost (excluding salaries and overhead) is $162.50 per list (250 x $.65)
- List A had 25 renewed donors
- List B had 50 renewed donors
- List C had 75 renewed donors

Let's start by calculating DAC. We know our total cost is $162.50 per list. What we are really interested in is plugging in the number of acquired donors. Let's imagine our test played out like this:

DAC of list A = $162.50 ÷ 25 = $6.50

DAC of list B = $162.50 ÷ 50 = $3.25

DAC of list C = $162.50 ÷ 75 = $2.16

We can see that acquisition costs were lowest for list c, coming in at two dollars and sixteen cents.

Next let's take into consideration the average donation amount of each segmented list. Remember, average donation is simply (all donations / total # of donors). For our purposes, here are a few more constants:

- List A had total donations of $1,500
- List B had total donations of $2,500
- List C had total donations of $1,500

Average donation list A = $1,500 ÷ 25 = $60

Average donation list B = $2,500 ÷ 50 = $50

Average donation list C = $1,500 ÷ 75 = $20

Great. Now how do we choose which segmented list we are going to send the rest of the mailers to? Let's do a bit of analysis.

Sending to list A incurred the greatest donor acquisition cost, $6.50 per acquired donor. But that was partially made up for by having the largest average donation amount, $60.

List B was right in the middle for both of our key metrics, and list c had the lowest DAC, but also the lowest average gift amount by far.

They all seem like viable options, how do we choose just one to send to?

Ratios. To be more specific, unit ratios.

List A

For every $6.50 we spend on list A, we will receive $60 in donations. That's a 6.50 : 60 relationship.

That doesn't really help us. But if we divide our ratio by 1 (in terms of our denominator, 60/60) we get a unit ratio.

$$\frac{6.50}{60} = 0.11$$

Ultimately this ratio can be interpreted as, **for every $.11 spent we will generate $1 if we send to list A.**

Let's see what our unit ratio comes out to for lists B and C.

List B

For every $3.25 we spend on list B, we will receive $50 in donations. That's a 3.25 : 50 relationship.

$$\frac{3.25}{50} = 0.065$$

For every $.065 spent we will generate $1 if we send to list B.

List C

For every $2.16 we spend on list C, we will receive $20 in donations. That's a 2.16 : 20 relationship.

$$\frac{2.16}{20} = 0.11$$

As with list A, **for every $.11 spent we will generate $1 if we send to list C.**

Now things look more clear. **List B is the obvious choice.** Based off of our two key metrics and our unit ratio we can see that for every $.065 spent on list B, we will generate $1. That's a fantastic short term ROI.

Things become more interesting over the next 3-5 years as you can analyze how the segment performs in terms of retention and lifetime value. But nonetheless, key metrics and unit ratios are your tricks of the trade when it comes to figuring out who to actually send to.

Section 6

LONG TERM PLANNING

So how do we apply these concepts to long-term planning and strategy? This walk-through example may be nice and helpful in wrapping your head around what data to analyze before your next direct mail appeal, but how do you incorporate these concepts in your organization's long-term plans?

It goes back to culture and infrastructure. The only way you can scratch the surface of what we outlined above is if you have leadership that supports testing and tools that enable analysis.

Your database is full of great information. You should be able to scrutinize previous all previous data and come up with segments for your own for testing. It's my hope that this guide will be a useful resource for you and your team as you analyze, test and validate your hypotheses. And remember, take advantage of new technologies!

Fundraising Report Card is free. Join today and get started on your data-driven quest!