Donor Lifetime Value

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Relationship-Based Fundraising

Donor Lifetime Value & Relationship-Based Fundraising

If you work in the fundraising space, you've probably spent a considerable amount of time imagining solutions to your donor attrition problems. The difficulty keeping donors isn't limited to your organization; The Fundraising Effectiveness Project's 2017 survey report paints a dismal picture of retention in the current landscape. **The current average donor retention rate is 45%, and for every 100 donors gained in 2016, there were 99 lost through attrition.** The largest growth in gift dollars and donors came from new gifts and donors, a category which is offset by the substantial costs of acquisition.

Easy answers are proving to be difficult to find. Jim Greenfield, a member of the Growth in Giving Working Group, suggests that "continuous investment" may be the only feasible way to stem the tide of attrition. However, short-term solutions built around increased spending are clearly **not a viable answer to the problem** - **what is needed is a solution that works equally well for organizations of all sizes.** Furthermore, **increasing investment to combat losses doesn't solve the problem of attrition**, and only perpetuates the circumstances which have kept the overall gift retention rate stuck below 50% for the past twelve years. Non-Profits can't and shouldn't spend their way out of the donor retention problem - it just shifts the issue elsewhere.

The challenge is pretty clear: How can non-profits continually minimize our attrition rate in a meaningful way, so that their annual revenue growth can increase the value of fundraising efforts rather than continue to barely offset their losses? **How can we address this problem at the source?**

The ExactAsk approach is predicated on a radical re-contextualization of the ways we analyze our fundraising efforts. In order to combat donor attrition, we need to identify and change the common behaviors through which we unknowingly perpetuate the cycle. **What is required is a fundamental shift away from segmented, campaign-centric analysis and towards a holistic, Donor Lifetime Value (DLV) model.**

Changing the Rules

Non-profits have been treating fundraising like checkers, and we've got to start treating it like chess; meaningful growth and success requires a long-term strategy that extends beyond individual campaigns. Campaign-based analysis, which heavily favors short-term victories over long-term growth, is both permanently outmoded and the root of many attrition-driving behaviors amongst fundraisers. Working to maximize the revenue of any given single campaign, all you are doing is robbing Peter to pay Paul.

Year after year, non-profits lose a substantial portion of the value of their existing donors. For the average non-profit, 80% of donor value is lost after five years. This loss in value puts more pressure on organizations to acquire new donors to replace the lost value by adding new donors, but of course adding new donors is exponentially more expensive than keeping existing ones. **You can end up spending almost four times as much to keep your revenue stabilized.**

In order to boost the response rate of any given campaign and demonstrate "performance" it quickly becomes necessary to intentionally sacrifice donor value by suggesting a safe, low donation amount. Year after year, discount after discount, a donor's value shrinks to zero thanks to a campaign-centric ROI metric that heavily favors short-term successes over long-term relationships. Rather than focusing on creating campaigns that impact a donor's behavior in their favor, organizations are spending time figuring out how to structure campaigns to best take credit for as much revenue as possible.

Shifting Focus

Donor Lifetime Value is, in its simplest expression, a calculated value that represents your best prediction of **the total amount any given individual donor will contribute to your organization over the course of their lifetime.** There are several different approaches to calculating lifetime value, but they are all a variation of this simple formula:

$$DLV = R \times L$$

Donor Lifetime Value is equal to Annual Donation Amount multiplied by Length of Relationship in Years

To get the most accurate picture of lifetime value, a slightly more complex approach is required:

$$DLV = (R \times L) - (A + M)$$

DLV = Donor Lifetime Value

R = Annual Donation Amount ($)

L = Length of Relationship (Years)

A = Cost of Aquisition

M = Cost of Marketing

This formula takes into account the costs involved in acquiring a donor and maintaining your relationship through marketing, to help you arrive at a number that can help you rearrange your fundraising efforts. When you look at donors from a lifetime value perspective, two things change right away. The first is **a complete re-evaluation of ROI on a donor by donor basis**, balancing cost of acquisition against the total aggregate donations of an individual instead of the costs of a single campaign. The second is **a shift in focus away from short-sighted, acquisition-driven campaigns and towards preventing donor value degradation.**

New Perspective, New Priorities

After non-profits turn the corner and start thinking in terms of DLV, you can begin to practice **relationship-based fundraising** in earnest. By shifting the focus of their energy away from campaigns and onto individual people, you can start to develop strategies that maximize individual donor value and actively work to reduce donor value degradation. The most effective vector through which to achieve these goals is also one of the easiest to adjust: **the ask amount.**

If you're using a single ask amount for your entire donor pool per campaign, you're creating two problematic outcomes: causing some donors to give nothing, and others to give far less than they might have with a more carefully targeted ask amount. If you're segmenting your campaign to try and match a set of ask amounts to different donor categories you're probably doing a little bit better, but not by much. The fact is that while segmenting your campaigns by broad demographics seems effective in theory, in practice it largely groups together sets of donors who have little in common besides a single fact: address, income level, level of education, etc.

If you want to maximize your ROI on any given donor relationship, you need to treat that donor like an individual and calculate an ask amount based on a matrix of overlapping characteristics. A person isn't a zip code or a college degree, they're a function of the intersection of many different identities. If you want to build the healthiest long-term relationship with a donor, you need to take a lot of variables into account.

Technology Is The Key

Personalized ask amounts reduce donor value degradation, combat attrition, and help you make good on your calculated DLV. They shift the focus of fundraisers away from demographics and onto individual donors. And while they might seem impossibly labor intensive to generate, new developments in machine learning have made it possible to pinpoint with startling accuracy how much any given individual on your donor list is likely to give.

By combining your existing donor information with publicly-available data and performing advanced analytics, it's possible to generate an ask amount that maximizes the value of any given donor. Rather than attrition, these personalized ask amounts will lead to revenue growth and an end to the donor value degradation that's been a hallmark of campaign based fundraising.

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