What Your Organization Needs to Know About

Direct Response Fundraising

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Every year, individual Americans donate close to *$500 billion* to nonprofit organizations.

Some donors write small checks for ten or twenty dollars. Others make contributions for many thousands. These individuals make their contributions in response to a request they've received from an organization: a mailing, an email, an online advertisement or social media post, a phone call, a face-to-face request, or a televised request for a gift. These various ways of reaching out to donors and potential donors are all forms of direct response fundraising.

For organizations — even new ones which haven't yet established their reputations — this appeal for support (no matter the channel) represents the opportunity to begin developing a dependable source of funding. And for donors, it offers a way to belong ... and to help those in need.

These communications transform total strangers into the loyal friends whose generosity supports your organization — that's what direct response fundraising is all about!

What Is Direct Response Fundraising?

Properly executed, direct response fundraising is a means of providing your organization with loyal supporters, a cost-effective means of communicating your organization's priorities, and a consistent source of working capital.

Equally important, it can systematically identify the people capable of making very large gifts, monthly donations, and bequests on which so much of your group's future success depends.

Direct response fundraising is a process of building a donor base and a reliable source of funding, and it requires an investment by an organization — it is imperative to spend money to make money.

Is It For You?

Even though you may be ready and willing to begin a full fledged direct response fundraising program, there is a critical question you must answer before committing your organization's time, effort and money: *Is my organization a good candidate for this sort of fundraising?*

This has nothing to do with the worthiness of your cause. Some causes — no matter how important — are not able to be promoted cost-effectively through direct response fundraising. Others may only work at particular times, when current events and the public mood make the public most receptive to their missions.

To learn whether direct response fundraising is likely to be right for your organization, you should ask a professional fundraising consultant. In fact, you should seek guidance from at least three reputable direct response fundraising firms.

If the consensus among the professionals is that your organization can successfully raise money through direct response (and there is sufficient evidence to support their belief), your chances of success are strong. But, if professionals caution you from this type of fundraising to achieve your stated revenue goals, you should accede to their wisdom and experience — even over pressure from a well intended board of directors.

Many nonprofits are surprised when a consulting firm warns them away from making a sizable investment in direct response fundraising. After all, you may argue, if you are going to test the donor marketplace anyhow and some professional advisor is going to collect a fee, why not them? Well, consulting firms like successes as much as clients do. And most firms get their new clients by word of mouth — from successful clients.

So if the professionals advise you away from direct response as a means for fundraising, you may be wasting your time — and even flirting with making a costly mistake.

Getting Started

Now that you have at least two professional fundraising firms that believe you have a chance for success, you should invite written proposals from them.

When choosing, use caution not to simply pick the firm projecting the largest return. And, be very cautious of firms who promise money for no cost beyond fees and expenses. Make sure you are getting donors out of the deal and not just lending your organization's name to a company operating for its benefit rather than yours.

Until your test is complete, no one can really tell what your response rate and market reach will be. So take other factors into consideration, such as the firm's track record, fee structure, in-house capabilities, experience in growing similar programs, expertise with various channels of fundraising, and your comfort level with the people in the firm you choose.

Once a contract has been negotiated and signed, your new consultant must do two things: (a) translate your case for support into an effective appeal, and (b) learn whether there are enough potential donors to make a long term program possible.

Let's use a direct mail test as an example, since direct mail typically drives the bulk of charitable contributions for many organizations.

The only way to learn whether you have a viable direct mail market is to test sufficient numbers of names (at least 30,000-50,000) from a diverse group of lists (usually 5-10).

To obtain the names for your mailing, your consultant will recommend renting or exchanging the lists of other organizations whose donors or members are likely to be interested in your specific cause or mission. If you are just starting out and do not have a donor list of your own with enough names to exchange with other groups, then you'll have to rent lists by paying each organization a fee for the right to test its list in one mailing.

By seeing how well your direct mail performs on a cross section of these test lists, an experienced professional can determine whether or not the "universe" of direct mail donors likely to support your organization is large enough to make further mailings a cost-effective option. If so, you and your consultant can develop a plan to "roll out" your mailing to larger and larger segments of the original mailing lists, while continuing to test your donor recruitment letter on additional lists of the type that worked in the first test mailing.

To lead with a digital strategy, a similar approach of testing the market through advertising and lead generation will be deployed. Responsiveness, engagement and conversions among audiences should be analyzed to determine if your test strategy justifies a larger investment to keep going. Mail and digital were used as examples here, but you should have similar approaches to testing and then rolling out in whatever channel you choose: mail, phone, email, web, direct response television (DRTV), etc.

What You Should Expect

Some organizations may have unrealistic expectations when undertaking their first direct marketing effort.

They send out one mailing, tally the donations, figure in their costs and, if the effort doesn't make a profit, they conclude direct marketing just isn't for them.

In many cases, that decision will cost their organization all the growth, money, and public education a properly managed campaign might have given them.

The mistake is in looking at direct marketing as a single campaign rather than as a process.

Remember, acquiring new donors is an *investment*, not a means of producing immediate income. It's important to remember that these first tests should not be expected to earn net income. These are "prospect" or "acquisition" campaigns — designed to acquire the most donors possible in the least amount of time, at an acceptable net investment per new donor. Your consultant can help you determine the acceptable cost per new donor based on industry-wide experience and the projected long-term value of your donors.

As prospects respond to your mailings or digital efforts and become donors, they are added to your organization's donor list — where they will become an ongoing source of donations to subsequent "housefile" appeals.

On rare occasions, you may earn more money than you spend on the test (which likely means you did not test a large enough part of the market). It is far more typical to lose money on this initial prospect effort, while you try to determine which is your best fundraising pitch and what lists or audiences will produce the best results for you.

Experienced development officers understand this as an investment in the future, and experienced direct response fundraisers understand it is not at all unusual to lose $35-$60 to recruit each new donor. They would only do so, however, knowing they are bringing on supporters who will make additional donations to fully recover that investment and produce a high rate of return — and net revenue to fund the mission of the organization — in future years.

Over time, development officers determine what the best investment level is for the donors they acquire. They know that the manageable short-term losses they sustain (the "acquisition costs") are more than justified by the long-term support (the "lifetime value") they'll earn from the donors they acquire.

The longer an organization engages in direct response fundraising, as a rule, the more cost efficient the process becomes. The increasing amount of net money raised in the long run from regular housefile appeals to an ever-growing donor file explains why organizations experienced in raising funds through direct response continue to invest in acquiring new donors, year after year.

Those donors —if managed properly — can become more than just the foundation of mail, phone, online, and email efforts. They can be the base of your overall fundraising program. These donors will become important sources for volunteer opportunities, events, major donor societies, and bequests.

Next Up: Cultivating Your Housefile

Proper management of the donor base means systematically identifying each donor's giving potential — and then moving each one to that point as quickly as possible. Most donors can be upgraded to higher giving levels. Through careful cultivation, some donors can be persuaded to become "multi-givers" — donors who give more than two or three times a year. And some will even become major donors, those who contribute hundreds or thousands of dollars each year. They can then be graduated into a more personalized program, where contacts are made by personal letters, phone calls or face to face meetings.

It is vitally important to send prompt and personal acknowledgements to your donors after they give, and occasionally update your donors on how you are investing their contributions. This stewardship helps improve the long-term value of your donors.

The larger your organization's base of quality low-dollar donors, the faster this process works to develop the major givers you want. And because direct response can find and acquire that initial base of donors faster than any other kind of solicitation, your entire fundraising cycle will be as efficient as possible.

Developing Your Donors

A sophisticated prospect program will always include testing new offers and creative against the most successful campaign (called the "control"). And when, after a series of tests, a new acquisition package consistently beats out the old one, it becomes the new "control." This ensures the continuing addition of fresh, enthusiastic donors to your house list.

But the donors already on that house list must also be kept informed and engaged — because it is from their continued donations that you will begin to earn substantial net income and pay back the original investment. The most successful direct response programs use many different channels, and approaches, to keep their donors educated.

Annual Renewals

If your donors are members, your consultant will develop a series of membership renewal notices. But you do not need to have "members" per se to run an annual renewal campaign. You can also ask charitable donors to "renew their support," and these renewal communications often bring in the larger share, or even the majority, of your annual direct marketing income.

There are two types of renewal campaigns. Larger organizations often run a monthly (or quarterly) "expire campaign," where donors are asked to make a renewal donation based on the anniversary of their first gift. Typically, the first renewal request is sent three months before the anniversary of their first donation (or expire date). So if you joined in September, you would receive your first renewal request the following June — nine months after you joined.

The more common renewal program for smaller organizations is based on the calendar year, where all donors are asked to give again for the upcoming year. All members or supporters would receive their first renewal request at the same time — such as in January, regardless of when their first gifts were made.

In either type of renewal campaign, donors continue to receive calls, emails and/or letters until they make a donation. Once they renew their support, they are then taken out of the renewal cycle.

When considering such a campaign, keep in mind that the renewal process is the single easiest way to increase your net income and retain your donors. For example, it is not uncommon for the first renewal communication to generate a response rate that is twice or three times the norm, compared to the next category of mailings — called special appeals.

Special Appeals

Special appeals are most other requests made during the course of the year asking for additional donations. The thematic focus is generally narrower in scope. While a renewal pitch makes a broader case for the overall mission, these special appeals generally focus on a hot topic, new development, special opportunity, smaller programmatic area, or threat.

Donors often feel they already made their "gift for the year," so special care needs to go into making the case for additional giving — after your donors have been thanked in a separate, prior communication for their renewal donations.

Those organizations that balk at the idea of asking their donors to give more than once or twice a year are not realizing their organization's potential income. They are in fact leaving a lot of money on the table — money that would further their missions! And because their more sophisticated competitors are asking, their donors are giving to rival organizations (often, several times a year).

Income from a series of special appeals — usually between six and ten communications per year in a variety of channels — can raise nearly as much as renewal income. In some cases revenue from appeals even exceeds income from renewals.

These special appeals also provide opportunities to tell your donors about new programs, update them on existing programs, and report on how their dollars are being used. A well crafted re-solicitation program should employ many different techniques and package formats to keep your appeals fresh and interesting. As you will see, different people will respond to different program elements, creative techniques, and thematic approaches, or choose the time of the year they prefer to give.

In addition to appeals to members or donors, some organizations offer donors other ways to participate.

Monthly Giving or Sustainer Programs

Some donors, for example, will commit to give a specific amount each month. They often agree to make a monthly donation with the convenience of their credit card or by automatic debiting from a bank account (an "electronic funds transfer").

Summaries of donors' past support and longevity with the organization, special "insider information," and other reinforcement techniques, including plaques, premiums and invitations to special events, help create a powerful bond with sustaining donors. This bond may lead them to contribute much larger gifts in the future.

The most successful sustainer programs usually take the form of a "club" or some other specially named program. This reinforces the member's feeling that he or she belongs to an elite and very special group. You will find these donors are also bonded to your cause or mission. As such, they have very high retention rates and long-term donor values, and the cost to raise their dollars can be quite low. These "sustainer programs" also provide a reliable source of monthly income that can help simplify your budgeting process.

Because monthly donors are so invested in the organization's mission, they are excellent prospects for increased giving and bequest opportunities.

Sustainer programs are highly successful in the worlds of canvassing (face to face fundraising), direct television advertisements, online communications, and telephone fundraising. Supporters are accustomed to using their credit cards, and since average gifts tend to be higher in these channels, donors with giving histories in these channels are that much more likely to respond well to a sustainer invitation.

High-Dollar or Middle Donor Programs

As you know, some donors prefer to make larger investments into the organizations they value, and direct response fundraising is a wonderful feeder track for identifying donors who may be open to making large donations in the future. Pay particular attention to those donors who join your organization with an initial gift of $100 or more. They are demonstrating that they like your organization (or cause) and have the means to make similar, and perhaps larger, gifts in the future.

Through "high-dollar" or "middle donor" programs (often organized as annual giving clubs), organizations select, cultivate, and upgrade their most generous donors. Typically, these mailings are more costly and more personal than those sent to other donors. As a result of this special treatment, many higher value donors dramatically increase the size or frequency of their gifts.

Cultivation and Stewardship

Cultivation efforts are not intended to attract immediate gifts, but to increase future ones. Like many of the techniques used in sustainer and high-dollar packages, cultivation campaigns bond donors to the organization. News clippings or newsletters showing how donors' gifts have been put to use are a typical technique, as are surveys and online petitions, or "thank you" calls. Used properly, cultivation and stewardship efforts greatly increase donors' feelings of involvement... as well as their responses to future fundraising requests.

Your Donor List: An Invaluable Asset

One tangible asset your organization will gain from direct response fundraising is the list of donors or members you recruit and cultivate. Yes, it requires an upfront investment into recruiting a large base of supporters. But it is not unusual for each of these donors to be worth $100, $250 or even $500 each over the next five years, after subtracting the initial investment spent on recruiting these donors and accounting for the normal attrition to be expected with newly acquired donors. It should be self-evident that you should treat your donor list with care, and treat each donor with respect.

In addition, the list itself has intrinsic value. Just as you will rent (pay money for a one-time use) the lists of donors to other organizations for your prospect program, other commercial, political, or charitable mailers will be interested in your supporters as potential sources of new donors to their organization. They may be willing to pay well for the privilege of "renting" your list. In a rental situation, you would ordinarily provide a list of your lower-dollar donors (only) to the other organization to solicit once in return for payment to you.

Your organization may also realize additional, and perhaps equivalent, value if you opt to exchange your donor list for the right to solicit an equal number of another organization's donor names on a one-time basis. Exchanging names will also significantly reduce the cost of your acquisition program.

Protecting Donors' Rights and Privacy

If you elect to offer your list for rental or exchange, be sure to give your donors the option to exclude themselves from the list you furnish to other organizations. It's a simple matter of privacy that is greatly appreciated by most donors, and most of them will not opt out. In fact, the offer may boost your donors' confidence in you. It's as simple as adding a check-off box one or more times a year that lets donors tell you "please do not share my name with other organizations."

In addition, you should add "seed" names to your list — fictitious names at a variety of real addresses — to allow you to track the usage of your list and insure it is used only in a manner you authorize. Your seed names are an important means of monitoring the use of your donor file and guarding against improper, or even illegal, uses.

To maintain donor privacy, you should never send names directly to another organization. A third party "merge-purge" company receives your list when you rent it or exchange it with another organization. You can also stipulate that a formal "list usage" agreement be signed with the organization to protect against the improper use of your list.

To protect the value of your donor list to your own organization and to other mailers, you should update and clean your list regularly to correct bad addresses and flag the names of deceased donors. Service bureaus (or "merge-purge" vendors) offer this type of processing. The most common types of list hygiene processing are National Change of Address (NCOA), Coding Accuracy Support System (CASS), and deceased record removal. CASS processing will correct and standardize addresses according to Post Office rules, NCOA processing will update records to match the current USPS national change of address file for recent movers, and deceased processing will identify donors that have passed. Each time the list is updated, a clean copy should be stored in an off-site location protected from fire or other hazards.

Note: in order to mail at nonprofit rates, USPS requires your donor file to be updated with NCOA processing within 90 days of your mail date.

The Ultimate Reward

The payoff of a well managed direct response campaign is more than just a healthy cash flow. Through cultivation of your donors, you identify those who will become actively involved, those who may become volunteers and even board members, and those who will make major financial commitments to your organization.

Too many nonprofits believe such active or major donors are "out there" and they just haven't found them yet. They are wrong. Your major donors are already in your own donor file. They're the people who've already proven their commitment to you by giving an initial contribution and, perhaps, several subsequent donations.

But to maximize their worth to your cause, they must be nurtured through a well managed program from the day they make their first gift.

Best of all (and this is what a development director should always bear in mind), your donor base will enable you to institute a healthy bequest program. The return from individual legacies alone may well exceed the net revenue you realize from direct response fundraising campaigns — and it often comes from your direct response donors.

It is not unusual to see a large bequest come in from a donor who never gave a gift of more than $10 at a time, or from someone who gave $50 five years ago. Your letters, emails, and calls over the years updated them on your priorities, needs, and good stewardship. You, in essence, formed a relationship and identified a financial need that they are now wishing to support even after they are gone. The donor may have been on fixed income, used to sending in small donations, too ill to write any more checks, or not very liquid, but their estate planning made sure their charitable legacy is now helping the people and causes that were most important to them in life. And it all began with a mail piece, an email, a TV ad, or telephone call that touched their heart and motivated them to support your organization.

This is why many organizations invest in direct response fundraising. That broad base of support — acquired, cultivated, and upgraded by mail, digital communications and telephone conversations — will even help you raise more money from foundations and corporations, because these leaders are also individual donors to organizations like yours.

A broad base of support says to the world that there is a real, and widely endorsed, need for your organization and what it does. There is virtually nothing more compelling to a potential major donor.

We hope that this overview of the direct response fundraising process serves you well as you consider your funding options.

For additional information, please contact:

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