



What Your Organization Needs to Know About Direct Mail Fundraising

NEWPORT CREATIVE COMMUNICATIONS

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Every year, individual Americans donate more than one hundred billion dollars to nonprofit organizations.

Some write small checks for ten or fifteen dollars. Others make contributions for many thousands. But the odds are that even such vastly different donors have something surprising in common: each made a first gift response to a letter they received asking for financial support. Because many of the gifts Americans give each year start out just that way. With a letter.

For organizations — even new ones which haven't yet had the chance to establish their reputations — that letter represents the opportunity to begin developing a dependable source of funding. And for donors, it offers a way to belong ... and to help those less fortunate.

For some donors, that letter may have been a personal note from someone they knew at the organization. But for the vast majority of givers, even those who eventually become very large donors, the first letter was probably a direct mail letter like those you find in your own mailbox every day.

How do those letters transform total strangers into the loyal friends whose generosity supports your organization? That's what direct mail is all about!

WHAT IT IS AND HOW IT WORKS

Properly executed, a direct mail program can provide your organization with loyal supporters, rapid growth, a cost-effective means of communicating your organization's programs, and a consistent source of working capital.

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

Too often, organizations have unrealistic expectations when they undertake their first direct mail effort.

They tally the donations, figure in their costs, and declare their verdict. If their mailing doesn't make a profit, or doesn't make at least a one percent return (as they have always heard a mailing should), they conclude direct mail just isn't for them.

In many cases, that decision has cost their organization all the growth, money and public education a properly managed campaign even one they thought had "failed" — might have given them.

Their mistake was looking at direct mail as a limited campaign. They should have been looking at it as an ongoing, long-term process of building a program.

Here's how it works ...

IS DIRECT MAIL FOR YOU?

Even though you may be ready and willing to begin a full-fledged program, there is a critical question that must be answered before committing your organization's time, effort, and money. The question is: Is my organization a good candidate for direct mail?

This has nothing to do with the worthiness of your cause. Many causes — no matter how important — simply cannot be promoted effectively by the mail. Others may only work at a particular time in history, when current events and the public mood make the public most receptive to their mission.

To learn whether direct mail is likely to be right for your organization, you should ask a direct mail professional.

Many non-profits are surprised when a consulting firm warns them away from direct mail. After all, you may argue, if you are going to test the mail anyhow and someone is going to collect a fee, why not them? But consulting firms like successes as much as clients do. And most get their new clients by word-of-mouth.

So if the professionals advise you to forget about direct mail, you're probably wasting your time by going in search of a firm that will tell you what you want to hear.

YOUR FIRST DIRECT MAIL TEST

Assuming two firms believe you have a chance for success, you should now invite written proposals and choose among them.

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

The only way to learn whether you have a sustainable market is to test sufficient numbers of names (at least 3,000 to 5,000) on a sufficient number of lists (usually between 10 and 20) for a total quantity of at least 30,000 50,000 names. Test criteria will differ depending on your particular circumstances.

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

By seeing how well your package 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 mail a cost-effective option. If so, a plan will be developed to “roll out” your mailing to larger and larger segments of the original mailing lists, while continuing to test your package to additional lists of the type that worked in the first test mailing.

PROSPECTING IS AN INVESTMENT, NOT A NET INCOME PRODUCER

It’s important to remember that these first mailings should not be expected to earn net income. These are “prospect” or “acquisition” mailings — designed to acquire the most donors possible in the shortest period of time, at the least possible net investment per new donor. As these prospects respond to your mailing and become donors, they are added to your organization’s “house list” — where they become an ongoing source of donations to subsequent “house file” appeals.

Occasionally, a prospect mailing will earn more money than it costs, but that should be considered an unexpected bonus. The goal of many not-for-profits is to “break even” on the mailing, spending a dollar for every dollar raised.

Increasingly, however, experienced development officers are willing to subsidize their donor acquisition program. They know that the manageable short-term losses they sustain (the “acquisition costs”) are more than justified by the long-term profits (the “lifetime value”) they’ll earn from the new donors they acquire.

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

Those donors — if managed properly can become more than just the foundation of your direct mail effort. They can be the foundation of your overall fundraising program, as well.

WHAT'S NEXT? 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 “multiple donors” those 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 out of the direct mail program and into a more personalized program, where contacts are made by personal letters, phone calls, or face-to-face meetings.

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

IN THE MAIL: DEVELOPING YOUR DONORS

A sophisticated prospect program will always include the testing of new themes and packages against the most successful current package (called the “control”). And when, usually after a series of tests, a new acquisition package 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 enthused because it is from their continued donations that you will begin to earn substantial net income. The most successful direct mail programs use many different approaches to keep those donors educated.

MEMBERSHIP RENEWALS

If your donors are dues-paying members, your consultant will develop a series of between three and ten renewal notices. The first of these is usually mailed two months prior to the expiration date, the second one month prior, and the third during the month of expiration.

Subsequent renewals may be mailed for several months afterward until the member renews. The conventional wisdom is that between 40 and 60 percent of new donors will renew the second year, although some non-profits can live with much lower renewal rates. Once that second gift is made, annual renewal rates should increase to between 60 and 80 percent.

But since you can't sustain a membership organization just on net income from one-time annual gifts, it's important to get as many of your renewed donors as possible in the habit of contributing in excess of dues. That's where the next phase comes in.

SPECIAL APPEALS

Those organizations that balk at the prospect of asking their members to give more than once or twice a year are not realizing their potential income. And because their more sophisticated competitors are asking, their members are giving to rival organizations (often several times a year).

Income from a series of special appeals — usually between four and ten per year — can raise half as much as dues income. In some cases revenue from appeals very nearly equals, or even exceeds, income from dues.

The most effective special appeals are those that ask members to support a particular program or meet an urgent deadline. The least effective special appeals are those that ask the member to contribute (above and beyond dues) simply because the agency needs the funds.

DONOR APPEALS

For those organizations for whom membership is not appropriate or desirable, renewals will take the form of a series of donor appeals. Most successful mailers find that a plan including four to twelve appeals each year is most effective.

Donor appeals not only raise net income for your organization, but provide opportunities to tell your donors about new programs, update them on old programs, and report on how their dollars are being spent. A well-crafted donor mailing program can employ many different techniques and package formats to keep the appeals fresh and interesting.

In addition to regular appeals to members or donors, some organizations have found other ways to raise funds from their givers through direct mail.

PLEDGE OR SUSTAINER PROGRAMS

Through monthly giving, donors commit to a specific amount each month. Frequently, they'll make their gifts in response to simple invoices. Some may sign up for an automatic payment plan using "Electronic Funds Transfer".

Summaries of the 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 pledge 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.

HIGH-DOLLAR PROGRAMS

There is another way many non-profits maximize certain donors' giving potential by treating them in special ways. Through "high dollar" programs — often organized as annual giving clubs — organizations target, cultivate and upgrade their most generous donors. High dollar mailings are sent only to them, not to the majority of donors on the file. Typically, these mailings are more costly and more personal than those sent to other donors. As a result of this special treatment, many high-dollar donors dramatically increase the size or frequency of their gifts.

CULTIVATION PIECES

Cultivation mailings 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 mailings bond donors to the organization. News clippings or newsletters showing how donors' gifts have been put to use are typical techniques. Used properly, they greatly increase donors' feelings of effective involvement ... as well as their responses to future fundraising requests.

YOUR DONOR LIST: AN INVALUABLE ASSET

The most tangible asset your organization will gain from direct mail fundraising is the list of donors or members you recruit and cultivate.

Most of the value of that list derives from your donors' response to future appeals from your own organization, thus potentially yielding substantial net revenue to support your work. But the list itself also has intrinsic value. Just as you will rent or exchange the lists of other organizations for your prospect program, other commercial, political, or charitable mailers will be interested in your donors as potential sources of new customers or donors. They may be willing to pay well for the privilege of gaining access to your list.

Your organization may also realize additional, and perhaps equivalent, value if you opt to exchange your donor list for the right to mail an, equal number of another organization's donor names. Exchanging rather than renting names significantly reduces the costs of your donor or member acquisition program.

PROTECTING YOUR 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 outside mailers. It's a simple matter of privacy that is greatly appreciated by most donors. Research shows that offering this option does not significantly affect the income you derive from renting your list. And the offer may boost your donors' confidence in you ultimately resulting in higher income.

In addition, you should add "salt" or "seed" names to your list — fictitious names at a variety of addresses — to allow you to track usage of your list and insure it is used only in a manner you authorize.

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 each time the list is updated, a clean copy should be stored in an off-site location protected from fire and other hazards.

HOW MUCH IS YOUR DONOR LIST WORTH?

Normally, the marketplace value of a donor list is calculated in terms of its occasional, onetime usage by other mailers on a rental basis.

Nowadays, most donor lists are offered for one-time rental for a fee of \$50 to \$150 per thousand names (with \$65-\$85 per thousand most typical, and \$75 the average). While the frequency of your lists used by other mailers may vary widely, from only occasional mailings to twice weekly or more, it’s useful to assume one rental per month of the full list. In that case, the annual marketplace value of your list would be calculated as follows:

12 times the list price (assuming \$75 per thousand), equals \$900 per thousand names per year. Therefore a list of 25,000 donors would produce annual gross list rental revenue of \$22,500. Of this amount, approximately 40%, or \$9,000, would typically constitute list-related fees and expenses, including list management fees, list broker commissions, computer running charges and shipping

Thus the net annual revenue you might expect would be \$13,500 from a list of 25,000 donors. That's about \$1,125 per month, or \$0.54 per donor per year.

A surprising number of factors bear upon the marketplace value of your particular donor list and may influence the rental fee you can charge. These factors include the method by which the names on your list were acquired (whether by mail or through television commercials, for example); the accuracy and professionalism of your list maintenance efforts, including how frequently it's updated and the addresses corrected; the average contribution you receive and how recently the donors gave their last contribution; as well as many other factors.

Ultimately, however, every mailer who rents or exchanges your list will determine its value based on the actual results it obtains and those results may vary greatly over time and from one mailer to another.

THE ULTIMATE REWARD

The payoff of a well-managed direct mail program is more than just a healthy cash flow. Through cultivation of your direct mail 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 non-profits believe such active or major donors are “out there,” and they just haven't found them yet. These organizations are wrong. Your

major donors are in your own file. They're the people who have already proven their commitment to you by giving an initial contribution and several subsequent donations.

But to maximize their worth to your cause, they must be nurtured through a well-managed program from the day they write their first small check.

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 dwarf the net revenue you realize from direct mail — but it comes from the same donors.

That broad base of support — acquired, cultivated and upgraded by mail — will also help you raise more money from other sources including foundations and corporations.

A broad base of support says to the world that there is a real need for your services. And there is virtually nothing more compelling to a potential major donor than that.



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