



Five ways to segment a non-profit donor base
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Executive Summary

Database Marketing is the process of designing, building, managing and implementing a targeted marketing strategy through defining layers of customer segmentations that lead to a one to one communication with each customer/member/donor.

Segmentation of donors

All non-profit clients and vendors share three strategic goals as they design direct marketing appeals and communications:

- Increase the number of donors
- Increase the average gift amount
- Increase the frequency of gift giving

To do that effectively, they leverage the power of

- Database marketing
- Segmentation

Before any guesswork, the best non-profit marketers begin with an analysis of current donors. They ask “who are the current donors and how can you tell who’s best?”

Strategy 1: RFM segmentation

- Recency in months for telemarketing and direct mail appeals; days for online appeals
- Frequency in number of donations
- Monetary Value in revenue

Figure 1: Segmentation of donor base by Recency with accumulations of gift giving

Segmentation by Recency of Donation			
Recency	Donors	<u>Lifetime</u>	
		Gifts	Gift Amount
0-12M	101,095	987,751	\$22,654,392
13-18M	43,625	261,294	\$5,858,550
19-24M	7,520	50,980	\$1,257,168
25-36M	51,375	257,307	\$5,323,890
37M+	490,490	1,762,915	\$30,680,796
Non Donors on File	397,675		
Grand Total	1,091,780	3,321,027	\$65,774,778

- Key Ratios for decision making
 - o Average Gift
 - o Gifts per Donor
 - o Gift Revenue per Donor
 - o % Revenue generated by top donors
 - o Cost to raise \$1
 - o Contribution generated by top donors

Figure 2: Key ratios for management decision making

Segmentation by Recency of Donation								
Average Gift	LTD Gifts/	Gifts/	LTD Gift Amount/	Gift Amount/	Percentages			
	Donor	Donor	Donor	Donor	% Donors	% Gifts	% Gift Amount	
	Index	Index	Index	Index				
\$21.02	8.88	321	\$186.74	372	9%	30%	34%	
\$20.55	5.45	197	\$111.91	223	4%	8%	9%	
\$22.61	6.16	223	\$139.31	277	1%	2%	2%	
\$18.97	4.55	165	\$86.36	172	5%	8%	8%	
\$15.95	3.27	118	\$52.13	104	45%	53%	47%	
					36%			
\$18.16	2.77	100	\$50.20	100	100%	100%	100%	

More advanced segmentation strategies

Strategy 4: Segmentation by donor Lifetime Value

- LTV by source of donor
- Marketing costs and ROI (Cost to raise \$1)
- Contact strategy experiments

Strategy 5:

- What you can tell from this report?
 - o Identify the best donors controlling for population size
 - o Identify lapsed donors who warrant a reactivation appeal
 - o Identify low dollar donors and non-donors who may be a drag on company performance

Now that you've identified donors by RFM, what's the next step?

Strategy 2: Acquisition models

The best acquisition programs begin with an intimate knowledge of best donors. Once you identify and profile the best donors, the object is to acquire more of them. How:

- Many successful non-profit marketers employ acquisition models, zip code models and best donor "clone" models
- Another best practice is to experiment with response lists and subscriber lists in addition to list exchanges. They are more expensive, but usually more effective at delivering loyal donors and positive Return on Investment (ROI)
- Experiment with overlay information (on representative samples to begin with)
 - o Understand both compiled and self-reported information
 - o Caveat: don't confuse capacity to give (Income, Net Worth) which is less valuable than proclivity to give (demonstrated history of giving irrespective of affluence)
- Primary research can also provide:
 - o Insight into what makes best donors tick
 - o Insight into what trips their trigger

Strategy 3: Segmentation by Donor Type

Now that you have acquired the right kinds of donors onto your database, then what?

Figure 3: Segmentation by type and relative strategies and offers Donor type	Strategy	Offer
Institutional givers	Acquisition	Special attention; telemarketing
Members, benefactors, patrons	Upsell	Annual giving program
High dollar donors	Retention	Personalized letters
Lapsed donors	Reactivation	Gift Survey
Buyers (bought a book, visited your museum, subscribed to your magazine, attended an event)	Conversion to donors	E-mail and low cost appeals Event sign ups
Low dollar donors, volunteers, constituents, past and present employees	<i>Friend-raising and Advocacy</i>	How you can help our worthy cause Website/Grass roots campaigns
Celebrities Endorsements	Publicity	

More advanced segmentation strategies

Strategy 4: Segmentation by donor Lifetime Value

- LTV by source of donor
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Strategy 5: Segmentation by statistical models

Predictive modeling and clustering

- Statistical method of ranking donors (e.g., regression equations)
- Statistical method of clustering like donors (beyond geographic clusters and into affinities and affiliations)
- More powerful than RFM, but costly to author and update
- Prediction of response and gift amount from a specific campaign

Key takeaway can be summarized in this checklist

Checklist for success

- Build a donor database
- Use empirical facts from response analysis to LTV to make decisions (like our report template)
- Market to donors according to value (not one size fits all)
- Identify and nurture best donors
- Implement lapsed-donor trigger programs
- Lower the marketing costs for low dollar donors
- Introduce a friend-raising program
- Understand the ROI of all investments (telemarketing, direct mail, e-mail, web)
- Try response lists, not just exchanges
- Use world-class direct marketing methods (test and control groups, search engine and affiliate marketing)
- Quantify publicity
- Track and honor donor preferences; protect the privacy and security of donors

Donor Segmentation by Recency and Frequency of Donation

Recency	Frequency	Donors	Lifetime		Average Gift	LTD		LTD		Percentages		
			Gifts	Gift Amount		Gifts/Donor Index	Gift Amount/Donor	% Donors	% Gifts	% Gift Amount		
0-12M	3+ gifts	66,995	935,627	\$21,328,506	\$22.80	13.97	505	\$318.36	634	6%	28%	32%
0-12M	2 gifts	13,285	29,227	\$735,912	\$25.18	2.20	80	\$55.39	110	1%	1%	1%
0-12M	1 gift	20,815	22,897	\$589,974	\$25.77	1.10	40	\$28.34	56	2%	1%	1%
Subtotal 0-12M		101,095	987,751	\$22,654,392	\$21.02	8.88	321	\$186.74	372	9%	30%	34%
13-18M	3+ gifts	23,285	231,209	\$5,173,896	\$22.38	9.93	359	\$222.20	443	2%	7%	8%
13-18M	2 gifts	7,010	15,422	\$333,540	\$21.63	2.20	80	\$47.58	95	1%	0%	1%
13-18M	1 gift	13,330	14,663	\$351,114	\$23.95	1.10	40	\$26.34	52	1%	0%	1%
Subtotal 13-18M		43,625	261,294	\$5,858,550	\$20.55	5.45	197	\$111.91	223	4%	8%	9%
19-24M	3+ gifts	3,815	45,419	\$1,073,250	\$23.63	11.91	431	\$281.32	560	0%	1%	2%
19-24M	2 gifts	1,350	2,970	\$68,202	\$22.96	2.20	80	\$50.52	101	0%	0%	0%
19-24M	1 gift	2,355	2,591	\$115,716	\$44.67	1.10	40	\$49.14	98	0%	0%	0%
Subtotal 19-24M		7,520	50,980	\$1,257,168	\$22.61	6.16	223	\$139.31	277	1%	2%	2%
25-36M	3+ gifts	23,010	215,798	\$4,456,116	\$20.65	9.38	339	\$193.66	386	2%	6%	7%
25-36M	2 gifts	9,370	20,614	\$406,596	\$19.72	2.20	80	\$43.39	86	1%	1%	1%
25-36M	1 gift	18,995	20,895	\$461,178	\$22.07	1.10	40	\$24.28	48	2%	1%	1%
Subtotal 25-36M		51,375	257,307	\$5,323,890	\$18.97	4.55	165	\$86.36	172	5%	8%	8%
37M+	3+ gifts	168,910	1,317,426	\$23,467,806	\$17.81	7.80	282	\$138.94	277	15%	40%	36%
37M+	2 gifts	83,410	183,502	\$2,957,256	\$16.12	2.20	80	\$35.45	71	8%	6%	4%
37M+	1 gift	238,170	261,987	\$4,255,734	\$16.24	1.10	40	\$17.87	36	22%	8%	6%
Subtotal 37M+		490,490	1,762,915	\$30,680,796	\$15.95	3.27	118	\$52.13	104	45%	53%	47%
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Grand Total		1,091,780	3,321,027	\$65,774,778	\$18.16	2.77	100	\$50.20	100	100%	100%	100%