

THE RIPPLE EFFECT
small actions with BIG IMPACT

Calculating Your Key Fundraising Metrics

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What We Will Cover Today

Who am I?

- Understanding the Importance of Fundraising Cost Effectiveness
- Where to Begin?
- Developing Your Measurement Tools
- Analyzing Strategies
- Using Data for Revenue Forecasting
- Conclusion
- Q & A




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- On a mission to transform organizations through effective philanthropy!

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Resources

- Sample: Appeals Comparison Appeal Report
- Sample: Appeals Comparison Report Explanation Sheet
- Sample: Individual Giving Report
- Resource: Solicitation Activity Reasonable Cost Guidelines
- Sample: Long-range Development Plan



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This is it!

Quite simply, this may be one of the more forgotten tasks in fundraising.

But if done, it can help transform your funding program and lead you to greater focus in your efforts with higher returns.

Start measuring your effectiveness!



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Question

Why do you think fundraising cost effectiveness is so important?



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Understanding the Importance of Fundraising Cost Effectiveness



Why is fundraising cost effectiveness important?



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Why is fundraising cost effectiveness important?

- Public expectations
 - Good investment of resources
- **Overhead Myth** - Low fundraising costs mean well-managed and efficient organization
- Vibrant and impactful development fund



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Why is fundraising cost effectiveness important?

Why measurement?

- Metrics help to highlight opportunities for increased productivity and profitability
 - **Define** performance
 - **Identify** areas of improvement
 - **Design** program to achieve unrealized potential
- Need to justify budget for fundraising profit center
 - Prove efficiency and effectiveness
 - Forecast how much more money can be raised with investment



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Why is fundraising cost effectiveness important?

Are there industry standards?

- No national standards

Are there any studies?

- Some studies of individual solicitation methods.
- Conclusions: Each method performs at different levels of effectiveness and efficiency
 - Donor Acquisition vs. Retention
 - Major Gifts vs. Annual Giving



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Why is fundraising cost effectiveness important?

What is a reasonable cost for fundraising activities?

- After three years of operation, bottom line cost-benefit ratios for a mature fundraising development program should be as follows:
 - Annual Fund - \$.40 per \$1 raised
 - Major Gifts - \$.20 per \$1 raised
 - Benefit events - \$.50 per \$1 raised
- Acquisition, renewal, etc.



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Why is fundraising cost effectiveness important?

Are all nonprofits the same?

- Not reasonable to expect same fundraising abilities
- Differences between nonprofits:
 - Programs and services
 - Mission and vision
 - Reliance on private vs. public monies
 - Reliance on full-time staff vs. volunteers
 - Emphasis on one or two strategies vs. a variety of strategies
 - New development vs. mature process



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Why is fundraising cost effectiveness important?

Priorities

- Mission, vision, present, and future plans
- Relevancy and quality of programs and services
- Ability to manage operations and financial affairs
- Establish detailed reports on costs and results of EACH solicitation method
- Measure annual performance
- Compare performance across years
- Examine amount of time expended and results achieved



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Question

How many of you have done a development audit for your current fundraising program?



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Where to begin?

Begin at the beginning!


- A thorough calculation of your fundraising effectiveness begins with some important initial steps.





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Begin at the Beginning

- It's necessary to develop and establish certain key plans, budgets, and reports.
- Certain analysis must also be conducted.
- Finally, once established, the reports must be reviewed periodically.
 - Annually
 - Bi-Annually
 - Monthly









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Begin at the Beginning

Initial Set-up (and Annually thereafter)

- Conduct **internal audit**
 - Current program strengths and weaknesses
- Review **past results**
- Develop annual **fundraising plan**
- Develop annual **budget**
 - Review each solicitation activity
 - Create budget for each
 - Include direct, indirect, and overhead costs
- Develop a **baseline** (if doesn't already exist)



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Begin at the Beginning



Review Bi-Annually

- Develop **plan and budget**

Review Monthly

- Critical **gift metrics**
 - Number of donors
 - Solicitation activities and results (e.g., direct mail, membership, events, etc.)
 - Gift income
 - Purpose of gifts (e.g., unrestricted, temporarily restricted, and permanently restricted)
 - Sources of gifts (e.g., trustees, corporations, etc.)
 - Average gift size



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Question

What are some current performance measurement indicators that you are using?



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Developing Your Measurement Tools

You need to develop performance indicator tools to measure the health of your development program



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Developing a Performance Indicator Tool

- **Remember!** Comparative analysis between nonprofits is not fair.
- Each nonprofit is unique with differences in...
 - Mission
 - Programs
 - Cost tracking methods
 - Solicitation methods
 - Donor base
 - History
 - People (Leadership, staff, volunteers, etc.)
- **Therefore,** performance measurements should also be tailored to your nonprofit.



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Developing a Performance Indicator Tool

- Performance metrics range from basic to more advanced
- Following are the metrics broken down into 3 groups:
 - Group A: Basic units of measurement
 - Group B: Common units of measurement
 - Group C: Advanced units of measurement
 - Donor loyalty
 - Donor acquisition
 - Online gifts
 - Other advanced indicators



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Developing a Performance Indicator Tool

Group A: Basic Performance Indicators

- **Mailed Pieces (#):** Mailed items to select database groups/direct requests
- **Gifts Received (#):** Gifts received by mailing or number of donors responding with gifts
- **Event Participants (#):** Audience members in attendance
- **Gross Income Received (\$):** Income excluding expenses or value of gifts/contributions received
- **Campaign or Activity Expenses (\$):** Expenses of mailing, including copywriting, design, mailing services and postage or any other associated fundraising budget spent



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Developing a Performance Indicator Tool

Group B: Common Performance Indicators

- Units of data measurement used more commonly across nonprofits are:
 - **Campaign Participation (%):** Number of replies received as a percentage of all invited to participate (# of Participants Invited/Total Solicitations)
 - **Donor Upgrades (%)**
 - **Frequency of Donor Upgrades (%)**
 - **Donors with Decreased Giving (#)**
 - **Donors giving remained the same (%)**
 - **Board Participation (%)**
 - **Volunteer Participation (%)**



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Developing a Performance Indicator Tool

Group B: Common Performance Indicators

- **Average Gift Size (\$):** (Revenue/# of Participants)
- **Multiple Gifts Annually (#)**
- **Net Income* (\$):** (Gross Income – Expenses)
- **Average Cost Per Gift (\$):** (Expenses/total # of Donor)
- **Cost of Fundraising (\$):** Bottom-line measure of overall profitability and productivity (Expenses/Revenue)
- **Rate of Return (%):** Direct relationship between investment and profit. $((\text{Net Income}/\text{Expenses}) \times 100)$ Note: Aim for return to increase annually.

**Note: Net Income is the most neglected, as the focus is usually on gross revenue. However, net income demonstrates true success after you calculate expenses including staffing time.*



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Question

What is your current donor retention rate?

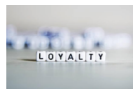


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Developing a Performance Indicator Tool

Group C: Advanced Performance Indicators

- **Donor Loyalty:**
 - Donor Retention Rate (%)
 - Rate of Transition: First-time Donor to Repeat/Regular Donor (%)
 - Percent of Donors Who Increase Gift Size (%)
 - Gift size (\$)



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Question

Do you have an active donor acquisition program?



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Developing a Performance Indicator Tool

Group C: Advanced Performance Indicators

- **Donor Acquisition:**
 - **Cost Per Donor (\$):** Cost your development program pays to convince a donor prospect or non-donor to become a donor
 - **Donor Value (\$):** Amount of money each of the individual donors in your database has donated to the organization
 - **Lifetime Value (Long-term Donor Value) (\$):** Total net contribution a donor will give over his or her lifetime (i.e., how much a donor might be worth to the organization over time)
 - **Reactivation of Lapsed Donors (#):** Donors who have given at least once in the past and give again after lapsing



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Developing a Performance Indicator Tool

Group C: Advanced Performance Indicators

- Online Gift Percentage (%)
- Email Conversion Rate (%)
- Email Opt-Out Rate (%)
- Social Media Conversions (%)



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Developing a Performance Indicator Tool

Group C: Advanced Performance Indicators

- **Other Advanced Indicators:**
 - Relationship Building and Satisfaction
 - Board Relationship Nurturing
 - Staff Performance
 - Average MAJOR Gift Size: Average giving capacity of top donors
 - Frequency of Donor Contact
 - Asks: Number of asks made in a given period
 - Conversion Rate: Action could be many things, ranging from attending an event to responding to a direct mail letter



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Question

How do you use data to inform your strategy?



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Analyzing Strategies

How do you analyze your donor strategies?

Analyze solicitation costs

Analyze each program component

Analyze the entire program as a whole



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How to Analyze Your Strategies

Solicitation Activity - Reasonable Cost Guidelines*

- Direct Mail (Acquisition): \$1.00 to \$1.25
- Direct Mail (Renewal): \$0.20 to \$0.25
- Special Events: \$0.50
- Volunteer-led Personal Solicitation: \$0.10 to \$0.20
- Corporation and Foundation Grants: \$0.20
- Capital Campaigns/ Major Gifts: \$0.05 to \$0.10
- Planned Giving \$0.20 to \$0.30

*All costs are per \$1.00 raised



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How to Analyze Your Strategies

Analyze Each Program Component

- Conduct individual analysis for each program:
 - Annual Fund
 - Membership
 - Telephone
 - Major Gifts
 - Special Events
- If Reasonable Cost Guidelines are met, then keep; if NOT, evaluate why
- Don't eliminate activity solely on these guidelines (especially if you have other "goals" in mind for particular strategy) but recognize during planning process



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How to Analyze Your Strategies

Annual Fund !

- What does an organization do with its newfound friends?
- Follow-up not acquisition
- Upgrading of donors through time and attention



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How to Analyze Your Strategies

Membership !

- How many prior members renewed? What percentage?
- What was the average membership gift amount?
- How many members increased or upgraded to higher level?
- How many new members were recruited?
- How many new members were added to each membership level?



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How to Analyze Your Strategies

Telephone !

- Compare telephone results with other Annual Giving performance
 - Determine which more successful
 - Demonstrate level of effective telephone contact for prior donor renewal/upgrade
- Compare letter-call-letter sequence vs. letter-only or phone-only
 - Study results from prior donors and lapsed donors (where telephone often works best)



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How to Analyze Your Strategies


Major Gifts !

- Analyze basic details
 - Number of donors
 - Gift amount
 - Average gift size
 - Gift upgrades
- How many donors were not visited?
- How many prospective donors did not give?





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How to Analyze Your Strategies

Special Events 

- Counting the number of people attending
- Determining who attended
- Execution of each strategy and its effectiveness
- How many attended and then became donors?

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How to Analyze Your Strategies

Analyze the Entire Program


- Collective analysis of the fund development program
 - Three years of data analysis more telling than just one year
 - 10-year comparisons provide substantial data
 - Results expected to increase year to year
 - Improvements in cost of fundraising and return percentages
 - Compare apples to apples
 - Figure in events such as large capital campaigns
- Analyze performance against budget projections






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Question

Do you use your data to forecast revenues and how?



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Using Data to Forecast Revenues

After completing the analysis of the program...

- Use the data now available to predict in which programs to invest



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Using Data to Forecast Revenues

Use program analysis:

- Adequate details now available to predict results for each solicitation
- Three or more years of data most reliable
- Invest in programs with a high expected rate of return and net income that more than justifies the decision to commit the same, or increased, budget resources to solicitation activities.



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Using Data to Forecast Revenues

Where to invest?

- Choose solicitation activities where there is/has been/expects to be...
 - Potential growth
 - Anticipated net income potential to be realized
 - Strategic development in numbers of renewed and upgraded donors
 - Acquisition long-term value
 - Acquisition and retention go together
 - A priority of need and pressure for cash from the organization
 - Improving quality and personalization of development office
 - Present staff capability
 - Anticipated changes in economic climate
 - Competition from related nonprofits

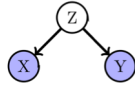


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Using Data to Forecast Revenues

Variables to take into account

- Changing institutional priorities
- Changing participants
 - Donors, volunteers, staff, etc.
- Changing external conditions



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Conclusion - What did you learn?

How to...

- ...understand the importance of fundraising cost effectiveness
- ...begin establishing a program to measure your organization's fundraising effectiveness
- ...develop measurement tools
- ...analyze your strategies
- ...use data to help forecast revenue

Establishing a baseline and then developing measurement tools, allows you to analyze strategy and predict revenue reliably.



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Take it back...

***How will you use this information
to calculate the effectiveness of your fundraising
program?***

Greatest "Aha" moment today?



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Q & A



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