PART 5 | *Measure Your Success Correctly*

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Know Your Six Fundraising Numbers or Die

If you appeared on the reality TV show Dragon's Den (or Shark Tank), pitching your charity to investors, would they give you any money?

Watch a few episodes of either show and you'll quickly discover the most common mistake wannabe entrepreneurs make: They don't know their numbers.

They don't know their costs. Or their break-even point. Or the size of their market. They don't know the numbers that will persuade investors to fund their business venture. So they walk away without a penny.

In fundraising, you live or die by your numbers. You can't hope to get your budget approved (or hold onto your job) unless you can demonstrate that you know your business. And your business is numbers.

Here are the six numbers you need to know cold.

1. Net Annual Growth in Active Donors

Every year you add donors through acquisition and lose donors through attrition. The difference between these two

numbers is your net growth. It's either positive or negative (or unchanged–unlikely). Don't measure just the number of new donors you add annually. That number might look impressive, but it's false. 80,232 donors acquired minus 81,439 donors lost isn't growth.

2. Net Cost Per Donor Acquired

Figure out how much you need to spend to acquire a new donor for every channel you use (direct mail, face-to-face, online, direct response TV, special events, and so on). You need to know this number to win board approval for a donor acquisition budget. Donor acquisition costs money. The other number you need to know is Lifetime Donor Value by Channel (below).

3. Attrition Rate by Channel

Donors die, lose their jobs, move, retire, divorce and do other disagreeable things that make them stop supporting your cause. Although many of these things are beyond your control, you still need to know the number of donors you lose each year, expressed as a percentage of your active donors, and calculated for every channel you use to raise funds.

When you know your attrition rate, you know how many new donors you must acquire each year just to stop your file from shrinking. Because it is shrinking.

4. Renewal Rate by Channel

What percentage of your donors who give a gift one year also give a gift the next year? That's your renewal rate. Your renewal rate indicates how passionate your supporters are about your cause. It also indicates how successful your donor stewardship program is.

5. Second Gift Conversion Rate

Most people who make one gift to a charity never make another. If you have a low Second Gift Conversion Rate, you either are attracting donors who are unlikely to make a second gift, you are not treating your first-time donors properly, or you are not asking for that vital second gift soon enough (or all three).

6. Lifetime Donor Value by Channel

How much does one of your average donors contribute to your charity in her lifetime? That's the number you need to know to justify your investment in donor acquisition and stewardship. Include in this number every gift ever given, including annual gifts, major gifts, special event gifts and bequests. Know this number for every channel you acquire donors by.

By the way, if you master these six numbers, and adjust your fundraising program accordingly, you'll have the knowledge and expertise you need to negotiate another vital fundraising number: your salary.

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Measure Your Success in Direct Mail Fundraising with Four Numbers

A while back I realized that measuring the effectiveness of direct mail fundraising campaigns is a lot easier than I'd thought.

I was confused by all the formulas and ratios, and was never sure which numbers were more important than the others. Cost Per Piece, Cost to Raise a Dollar, Return On Investment, Average Gift, all of these and at least six other metrics kept me in a state of anxious ignorance. I was never sure where I needed to start in making my calculations.

Now I know, and I thought I'd pass on to you what I discovered in what I suppose I could call an epiphany.

I discovered that, to track the effectiveness of any direct mail campaign, all you need to start with are four numbers. Once you know what these four numbers are, you can perform every calculation you need to measure your costs, revenue and return.

These four numbers are the only ones you need to measure on every campaign. They're the only four numbers you need to obtain when comparing recent campaigns with those from long ago.

The numbers are simply these:

1. Number of letters you mail
2. Number of gifts you receive
3. Amount of money you spend to mail the letters
4. Amount of money you receive as gifts

These numbers are known in the trade by various terms. I refer to them as:

1. Pieces Mailed
2. Total Gifts
3. Total Cost
4. Gross Income

I recall these four numbers by remembering that two deal with mail and two deal with money. The first two numbers deal with what you mail and with what comes back in the mail. And the second two numbers deal with what you spend and with what you earn.

Only when you know these four simple numbers can you run the calculations you need to make sense of your direct mail fundraising results. Need to know your cost to

raise a dollar? Divide your mailing cost (number 3 above) by your income (number 4 above). Need to know your average gift? Divide your income (number 4 above) by the number of gifts received (number 2 above).

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Five Vital Signs of a Healthy Direct Mail Fundraising Program

A while ago, I spent the night visiting two hospitals with my four-year-old son, Spencer. I noticed that the staff at each hospital took the same vital signs (pulse, oxygen saturation, temperature, breathing) to determine Spencer's health. Nurses and doctors miles apart, working for different hospitals, on different shifts, knew the same things to look for to determine the health of their patient.

You must do the same with your direct mail fundraising program. Here are the five vital signs to watch for to make sure your program is healthy, and remains healthy.

Vital Sign #1: Your donor file—it's growing

Death is unavoidable, even in fundraising. Friends die. A healthy direct mail program includes multiple donor acquisition mailings each year to replace donors who die or otherwise "lapse," and to grow the donor file even further so there is a net gain in new supporters yearly.

Vital Sign #2: Your friends—they're loyal

Experienced annual giving officers know that the main goal of fundraising letters is not to raise money but to retain donors. Make friends for life and they will donate. A robust direct response fundraising program aims to keep as many donors as possible, and avoids methods (sweepstakes and premiums, for example) that attract too many short-term donors.

A well-run program mails original, personal, heart-felt thank-you letters for every gift within 24 hours, and mails newsletters to keep donors informed about how their gifts are changing the world.

Vital Sign #3: Your numbers—you know them

Successful directors of development know that you can only manage what you can measure. And the beauty of direct mail is that you can measure just about everything. What is your attrition rate? What is your cost to raise a dollar? What is your cost per piece? If you're watching your numbers, you know the answers.

Vital Sign #4: Your testing—it's thorough

Arrive at the emergency department with a high temperature and the nurse will likely give you something for it, such as Tylenol. Medical staff don't simply measure your vital signs and chart them. They take remedial action. If you're running a healthy direct mail program, you are doing the same, through testing.

Which of those 11 lists generated the highest response and highest average gift at the lowest cost? Which package generated the highest response, the package with the brochure or the one without? Which ask generated the highest average gift, the one for the new kitchen or the one for the new mothers? If you are testing your lists, your creative and your cases for support, you aren't going with your gut anymore. And your program is healthier for it.

Vital Sign #5: Your donors—you treat them differently

Arrive at the hospital pregnant, they take you to obstetrics. Arrive broken, they take you to orthopedics. A hospital treats its patients according to the patients' needs, not the hospital's. A healthy direct mail fundraising program does likewise. It solicits and respects the goals, desires and wishes of its donors.

Those who want to give monthly, can. Those who want an annual receipt, get it. Those who want to receive updates on your work in Darfur by email, not by mail, get them. Those who supported your new initiative with a $2,000 gift are delighted that your subsequent appeals cover the same need, acknowledge their support of that need, and speak to them as a partner and not as a paycheck.

One advantage to raising money through the mail is that you don't have to wait until you see signs of sickness

before you seek treatment and watch your health improve. Because direct mail is testable, and because others have gone before you, you can avoid plenty of the maladies that have felled perfectly worthy causes. Watch these five vital signs and you should avoid the emergency department.

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Don't Measure Fundraising Costs, But Cost-Effectiveness

The only number in fundraising that matters is net revenue.

Net revenue is the money you have left over after you subtract your fundraising expenses from your fundraising income. Net revenue is the only money you can do mission with. The more net revenue you have, the more good you can do in the world.

You would think that board members would encourage their charities to raise as much net revenue as possible. But plenty of them don't. They instead obsess over fundraising costs, and pressure their fundraising staff to cut fundraising costs wherever possible.

This is foolish and short-sighted. It's the equivalent of cutting your office energy costs in half by not heating in winter and not air conditioning in summer. And losing all your employees.

It's the equivalent of travelling to a famine-stricken area of Africa with life-saving supplies, but choosing the cheapest method of travel, row boat, instead of a Boeing

777, arriving three months late, and everyone having died while you were in the middle of the Atlantic Ocean saving money.

People who obsess over fundraising costs instead of net revenue are looking at the wrong end of the horse. You discover the health of a horse by examining its eyes, ears, nose and gums. The other end doesn't tell you much.

Arbitrarily cutting your fundraising costs is foolish if it reduces your net revenue, wouldn't you agree?

Increasing your fundraising costs is wise if it increases your net revenue, wouldn't you agree?

Remember that there are only three ways to increase your net revenue:

1. Reduce your costs
2. Get donors to increase the size or frequency of their donations
3. Get more donors

To persuade donors to increase the size or frequency of their gifts, you have to increase your fundraising costs (by mailing them more often, for example). To get more donors, you have to increase your costs.

Naturally, if you can reduce your costs without reducing your net revenue, you should. For example, if a fundraising letter printed in black raises just as much money

as a letter printed in colour, but costs less to print, you should print in black. But if printing in colour brings in more net revenue, despite it costing more, you should print in colour.

If your board demands that you cut costs, insist that you cut costs for the right reason. And there's only one right reason. Cut your fundraising costs not because cutting costs is always good (it ain't). Only cut if doing so boosts your net revenue, because boosting net revenue is always good.

If cutting your fundraising costs boosts your net revenue, cut. If increasing your fundraising costs boosts your net revenue, increase. Keep your eye on the right end of the horse and you'll raise more money, and do more good with it to change the world.

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You Must Spend Money to Raise Money

I received an email from a fundraiser who is about to lose her job. Her board of directors has decided they cannot afford her salary. They see her salary as just a line item in the budget, one found under the heading of Costs rather than Income. They blame their decision on the recession. I blame the board. And I sympathize with my fellow fundraiser.

The metric to watch in fundraising is not cost. It's cost -effectiveness. We fundraisers have to spend money to make money. How much we spend, and when we spend it, and how we spend it, should be determined not by some arbitrary number on our budget but by the return we anticipate from spending that money.

Five of the silliest words ever spoken in the English language are, "That's not in our budget."

What many members of volunteer boards fail to grasp is that increased spending must precede increased income. If you want your bequest income to increase, you must first increase your spending on promotion (think bro-

chures, letters, advertisements, seminars). If you want your major gift income to increase, you must first increase your spending on identification and cultivation (think database research, travel, solicitation materials).

So the question your board should be asking is not, "Can we afford to spend this much?" but rather, "What is the anticipated return if we spend this much?"

I've seen this first hand. I worked for a brief while at a non-profit that eventually laid me off because they ran short of money. I was their chief development officer, the one they hired to boost their income, but, when money got tight, they laid off the very person who could have raised more money for them, if they had only been willing to spend money first.

To persuade your board or your executive director to spend money in a tight economy, you need evidence. If you have proof from past campaigns that you can spend 23 cents and raise a dollar, show that proof. If you can demonstrate from a test mailing to a rented list that you can acquire new donors at a cost of only $11 each, and that they will pay for themselves within seven months and have a lifetime value of $892 and six years, show that proof as well.

Warren Buffet and Bill Gates don't like to spend money any more than your board does. But they like to spend money if the anticipated return on their investment is at-

tractive. That's why they spend billions of dollars a year on acquisitions that show up on the Costs line of their budgets. Invite your board to look at the Income line of those same budgets. You'll justify your salary.