WealthEngine™

Workbook

The Data-Driven Annual Fund

Part Three: Reporting and Return on Investment

Principles of
Fundraising Strategy for
Nonprofit Organizations

About This Paper

The Data-Driven Annual Fund is the second in a series of workbooks from WealthEngine Institute, WealthEngine's hub for education, research, networking and knowledge sharing. The workbook focuses on data understanding and use; strategies for segmentation, solicitation and stewardship of donors and prospects; and measuring and analyzing fundraising ROI and other key metrics. Part three delves into evaluating annual fund results and measuring the return on investment. It will cover, in deeper detail, metrics, ROI and benchmarking. We include interviews with well-known experts, as well as worksheets, templates and checklists that you can download and adapt for use in your program immediately.

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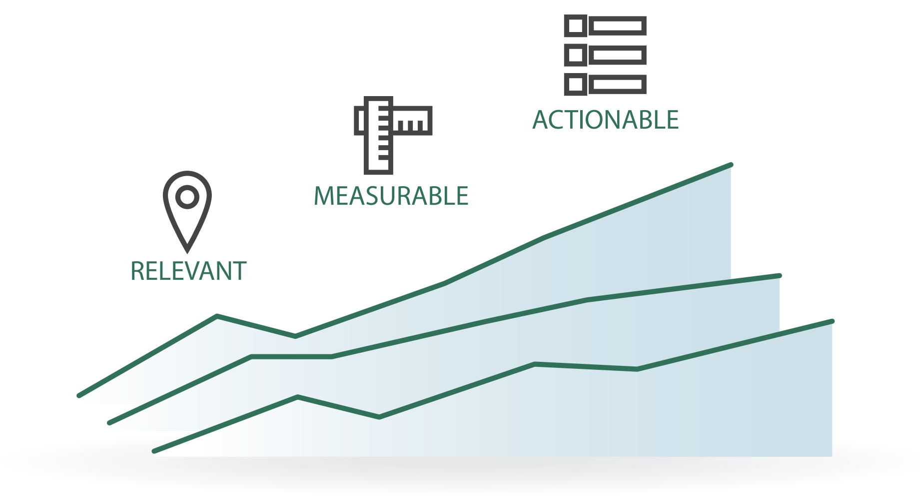
Metrics

Once the goals are set and the plan for the annual fund established, the key to unlocking the benefits of your hard work lies in monitoring your progress, reporting on results, and learning from what those reports show. Reporting becomes a delicate balance as it is easy to fall into "analysis paralysis" where the majority of time is spent on reporting rather than on the cultivation, solicitation, and stewardship of donors.

The most important metrics are those that are most valuable to your organization. They will tie to your organization's specific goals and objectives, telling you, in fact, whether or not you are making progress towards meeting those goals. As discussed in Part 1, The Building Blocks it is important to determine in advance which metrics will be reported to all your various stakeholders. This will help you avoid the trap of continually generating ad hoc reports of additional metrics for different audiences.

Metrics can be defined as "any type of measurement used to gauge some quantifiable component of an organization's performance" and have three primary qualities. Good metrics are:

1. **Relevant** – they fit with the organizational and campaign goals and objectives
2. **Measurable** – they are quantifiable and data can be collected in order to provide reporting
3. **Actionable** – they allow for corrective action to be taken as needed.



The following metrics are the generally accepted standard, baseline metrics to measure annual fund results. Using all, or a combination of the most relevant, of these formulae will provide a good overview of the annual fund.

Pledged Gifts in the Annual Fund

Accepting multi-payment pledges in the annual fund can be a very effective way to increase giving from individual donors. For example, a $25 donor could make a $25 quarterly pledge for a total gift of $100. Or a donor could make a multi-year pledge by committing to, for example, $200 per year over five years for a total of $1,000. More often than not, investing in the infrastructure to support the reminder and acknowledgement process is well worth the increase in dollars and average pledges.

Total Dollars

Simply put, this is the total cash amount paid or pledged to the annual fund to-date. Every annual fund needs to focus on dollars raised, although it is much more meaningful when combined with dollars spent to reveal return on investment (ROI) or cost to raise a dollar (CRD).

When there are pledged dollars as part of the annual fund, it should be determined if those are included in the total dollars or not. This decision should match with how these gifts are tracked in accounting – whether at the time they are pledged (accrual basis accounting) or when the cash is actually received (cash basis accounting).

Figures 1 and 2 show pledges and cash receipts tracked separately over five years.

Total Donors

This metric is a count of the total unique donors that have contributed to the annual fund.

Total Gifts

Total gifts is a count of the total number of gifts contributed to the annual fund. This count is differentiated from donors as some donors may make more than one gift in one fiscal year.

Average Gift

The average gift formula is total dollars divided by total gifts and is a measurement of the average dollars from each gift.

Example: $628,585 ÷ 10,163 = $61.85

Measuring basic metrics and comparing across three-year or five-year ranges can give a very good snapshot of annual fund performance year-to-year, as illustrated in Figure 1 and Table 1.

Fiscal Year	Total Pledged	Total Paid	# of Donors	Average Gift
2009	$1,356,724	$1,212,866	4,726	$257
2010	$1,268,912	$1,347,924	5,264	$256
2011	$1,481,657	$1,279,543	4,986	$257
2012	$1,602,300	$1,598,643	6,548	$244
2013	$487,526	$168,957	1,645	$103

Table 1: Five-year comparison report

Total Dollars FY 2008 - FY 2013

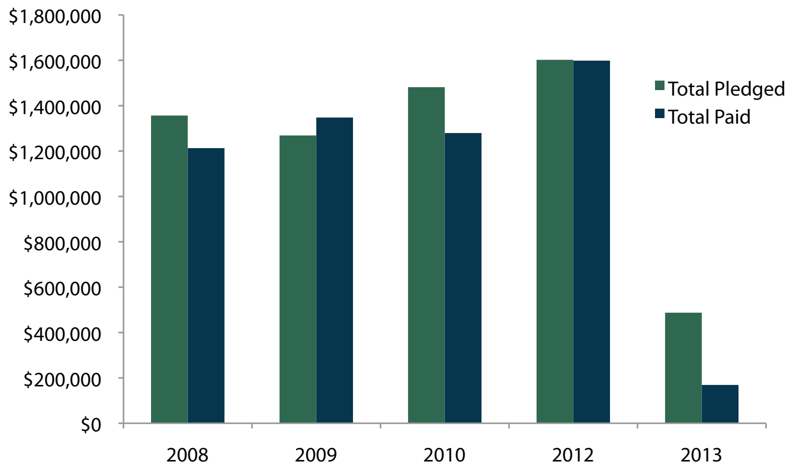


Figure 1: Sample five-year comparison chart

Participation Rate

The participation rate compares the number of donations to the number of solicitations as a percentage. The formula is Total Gifts ÷ Total Solicited = Participation Rate

Example: 10,163 ÷ 46,832 = 22%

"Twenty-two percent of those we solicited participated in the annual fund."

Donor or Gift Rate

This is differentiated from the participation rate in that it is the measure of donations compared to actual contacts. It is a more accurate measurement as it factors out prospects who could not be reached or for whom incorrect data existed. The formula is Total Gifts ÷ Total Contacts = Gift Percentage

Example: 10,163 ÷ 18,733 = 54%

"Fifty-four percent of those we contacted made a gift to the annual fund."

Table 2 shows a report calculating Contact Rate, Participation Rate and Gift Rate.

	Total Solicited	Total Contacted	Contact Rate	Total Pledged	Participation Rate	Gift Rate
Direct Mail	24,651	6,715	27%	1,578	6%	23%
Telefund	12,483	5,149	41%	3,473	28%	67%
E-Soliciation	9,698	6,869	71%	1,497	15%	22%
Total	46,832	18,733	40%	6,548	14%	35%

Table 2: Contact rate, participation rate, and gift rate

Median Gift

A median is the middle number in a sorted series of numbers. So, for example, in the series 1, 3, 5, 7, 9 the median number is 5. In some cases, average gift can be skewed towards the high end when all giving levels are included; by nature of the averaging function, it will include the high-level gifts as well as lower-level acquisition levels. By comparing median gift to average gift, it can give a more accurate picture of where the majority of giving occurs.

Data Set

noun
1. a collection of related sets of information that is composed of separate elements but can be manipulated as a unit by a computer. (Oxford Dictionary of English, Oxford University Press 2010)

When working with metrics such as renewal and attrition rates, it is important to ensure you are working with the same data set. For example, in the renewal rate we want the same donors who gave in both fiscal year A and fiscal year B. Simply measuring the total number of donors in A compared to the total number of donors in B will not give us an accurate count of the donors who renewed. Instead, we want to be sure we're measuring.

Contacts and Contact Rate

It is important to measure actual contacts as this tracks the number of people who actually received the fundraising message. For each channel, contacts are determined by counting the quantity of returned mail/bad address in direct mail, bounce-backs or bad emails in e-solicitation, and bad phone numbers, no answers, etc. in phone campaigns. To maintain data hygiene, these records should be sent through data research and append to determine if correct data can be found so the individual or household can be returned to the solicitation pool. If correct data cannot be found, the record should be marked as unsolicitable or "do not solicit." The formula for determining contact rate is Total # Contacts ÷ Total Solicited = % Contact Rate

Example: 18,733 ÷ 46,832 = 40%

Renewal Rate

The renewal rate is the count of donors who gave in one fiscal year and then in the subsequent fiscal year. The formula is Total # Donors Year 2 ÷ Total # Donors Year 1 = Renewal Percentage.

Example: 1/1/2011–12/31/2011 – 10,000 Unique Donors
1/1/2012-12/31/2012 – 8,000 Renewed Donors
8,000 ÷ 10,000 = 80% Renewal Rate

Attrition Rate

The attrition rate is the opposite of the renewal rate and measures the percentage of donors who gave in one fiscal year but did not renew in the subsequent year. It can be expressed as the difference between 100% and the Renewal Rate or by using the formula Total # Donors Year 1 - Total # Donors Year 2 ÷ Total # Donors Year 1 = Renewal Percentage

Example: 10,000 – 8,000 = 2,000
2,000 ÷ 10,000 = 20% Attrition Rate

Figure 2 shows renewal and attrition rates visually.

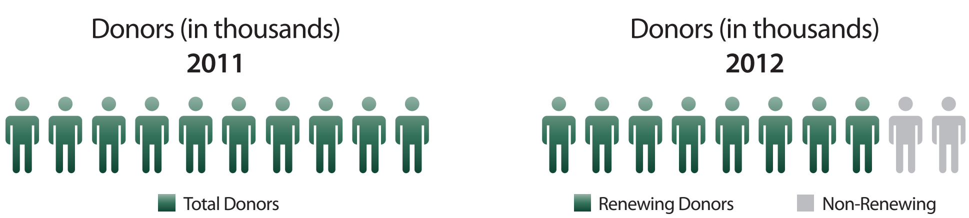


Figure 2: Renewal and attrition rates

Re-Engaged Rate

The re-engaged rate is the count of all lapsed and long-lapsed donors that renewed their support. It may be helpful to measure both LYBUNT and SYBUNTs separately, but they can be measured in total as well.

As part of the data style manual and audit process, it is important to determine the "drop off" date when a lapsed donor gave so long ago that they are more like an acquisition prospect. Generally three to five years is standard. In other words, if a donors' last gift date is more than five years ago, they are treated like a non-donor. Table 3 provides a sample donor segmentation.

Donor Segmentation*	Last Gift Date Range (Calendar Fiscal Year)
Current Donor	Last gift was in last fiscal year (1/1/12 – 12/31/12)
LYBUNT or Lapsed	1/1/11 – 12/31/11
SYBUNT	1/1/08 – 12/31/10
Non-Donor/Never Giver/Future Donors	Prior to 1/1/08 or has never given

Table 3: Sample donor segmentation criteria

**As noted previously, there is a school of thought that indicates LYBUNTs are in the previous fiscal year (1/1/12 – 12/31/12) and current donors are only considered as donors that have given within the current, active fiscal year (e.g. 1/1/13 or later). Whichever approach your nonprofit adheres to, it is important to be consistent whenever these segmentations are used.*

Consecutive Year Donors

Consecutive year donors represents the count of donors who give each year. It is important to measure and track consecutive year donors as frequency of giving is often a very high indicator of potential planned giving and potential increases in giving. These donors should be sub-segmented and stewarded in a way that is appropriate to their frequency of giving and recognizes their loyalty to your organization. Special thank you letters, recognition or behind-the-scenes opportunities would be strong ways of singling them out for special focus. As with renewing donors, it is important to measure the same dataset year over year. Table 4 shows a simple consecutive year donors report.

LYBUNT and SYBUNT

LYBUNT = Last Year But Unfortunately Not This or any donor who gave in the last fiscal year but not this one.

SYBUNT = Some Year But Unfortunately Not This, or any donor who is lapsed, having given in a previous fiscal year but not the current one or the one most prior.

Moves Management Tracking: Moving prospects in and out of major gift portfolio

When donors move up in priority and are selected for inclusion in a major gift solicitation portfolio, they can often get "stuck." So, for example, they do not respond to major gift cultivation initiatives or they say "maybe" to the solicitation, etc. Because they are in major gift cultivation, they may not be solicited for their regular annual fund gift. When they don't make a major gift either, they remain in the portfolio for later cultivation and they become lapsed. It is, therefore, important to review major gift portfolios regularly to ensure that donors are not getting stuck. Your organization should determine a policy to dictate if major gift prospects will receive regular annual fund solicitations. Likewise, it is equally important to review higher level annual fund donors who are giving indications they should move to major gift prospect status. Some of the indicators are repeat giving, increased giving, unusually large gifts, etc. Figure 4 shows the importance of a fluid interface between major and annual giving.

Donor Type	Count
Donor 2 Years	$75
Donor 3 Years	$75
Donor 4 Years	$75
Donor 5 Years	$75
Donor 6 - 10 Years	$75
Donor 10+ Years	$75
Donor 20+Years	$75

Table 4: Consecutive year donors report

New Donors

This is the count of donors who gave in the current fiscal year who had not given previously or were extremely long –lapsed.

Donor Churn

In every list there are inevitably donors who alternate years of giving; they give in one year, lapse the next and then give again in year three. Finding this group of donors and tracking their behavior will point to a list of donors who have been giving for years but doing so in alternate years; they have a long, identifiable relationship with the nonprofit but can often become "lost" because they are not giving consecutively. Figure 3 illustrates this "donor churn." As with consecutive year donors, these would be good prospects for extended, focused stewardship and cultivation.

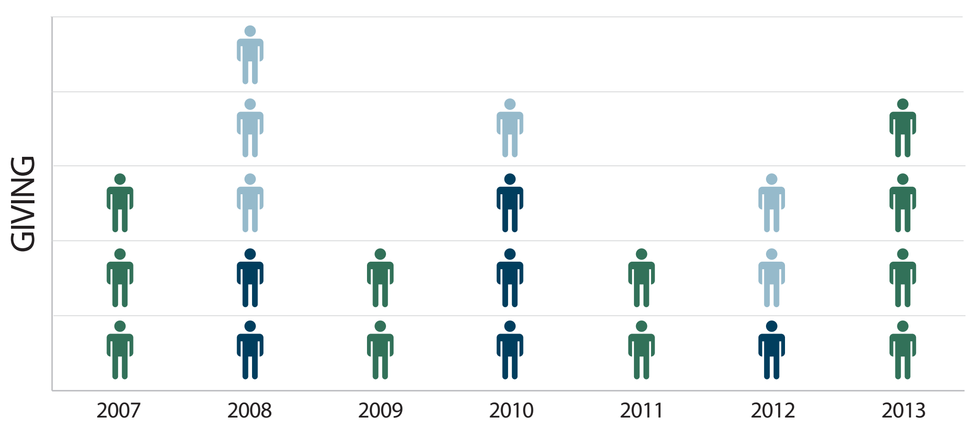


Figure 3: Non-consecutive year donors

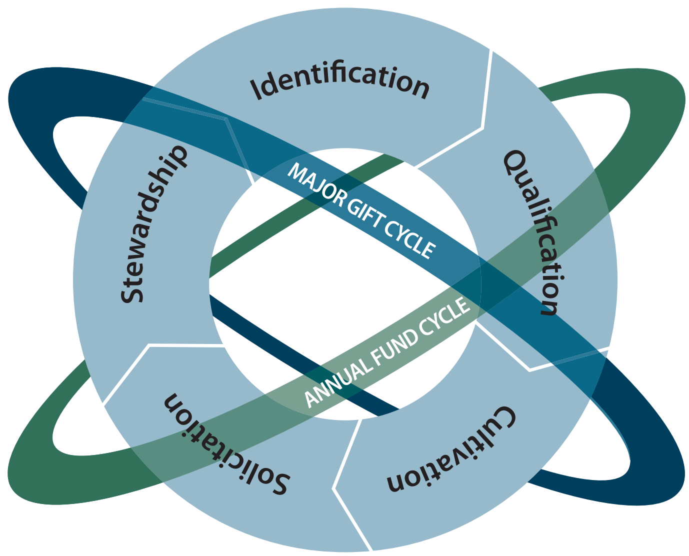


Figure 4: Prospects enter and exit the major donor cycle at various points

Some additional annual fund metrics:

- **Number of Donors making a Second Gift or Additional Gift in the same Fiscal Year**

  This is an important measurement as it can give a very strong indicator of affinity and donor interest. It would be equally important, however, to compare this result to consecutive year donors. A donor who gives twice in one fiscal year but then lapses may not be as valuable as a donor who gives once per year consecutively.

- **Number of New Donors retained into Next Fiscal Year**

  This is, put simply, the renewal rate for new donors. It measures the percentage of acquired donors in Fiscal Year A who renew in Fiscal Year B. It is an excellent measurement of retention rates on acquired donors.

  This metric is also known as the **second gift conversion rate.** Since it is generally accepted that the second gift is more difficult to get than the first, tracking the second gift conversion rate is an important tool in the arsenal to track your success in getting the second gift. The formula is Number of Donors Making a Gift in Year Two divided by the total number of new donors acquired in Year One.

Example: 1/1/2011 – 12/31/2011 – 4,000 new donors
1/1/2012 – 12/31/2012 – Of those 4,000 new donors, 1,500 made a gift
1,500 ÷ 4,000 = 0.375 x 100% = 38%

Lifetime Value of a Donor

There are multiple ways to calculate and use Lifetime Value of a Donor (LTV), the simplest of which is taking the sum total of a donor's previous giving and dividing that total by their number of gifts. This yields the average LTV.

On his blog, Expert Fundraiser, annual giving authority Alan Sharpe gives a great description of why he believes LTV is the most important metric in fundraising.

> *"If your average lifetime donor value is high, you are obviously watching your key donor and revenue metrics, such as net cost to acquire a donor, average gift, attrition rate, renewal rate, average revenue per year per donor, average number of gifts per year per donor, return on investment, cost to raise a dollar, and so on.*
>
> *If your average lifetime donor value is low, or shrinking, you likely have one of the following problems:*
>
> - *You are attracting the wrong kinds of donors (one-gift, low-dollar)*
> - *You are over-soliciting, or under-soliciting*
> - *You are treating your donors as pay cheques, not people*
> - *You are not trying to move your donors up the donor pyramid*
> - *You are not segmenting your donors based on recency, frequency and monetary value, and are therefore not maximizing the value of each donor in your database*
>
> *When your average donors stay with you for a long time, and increase their level of commitment over time, you are clearly creating and maintaining meaningful, mutually beneficial relationships with your supporters. You know that because your average donor lifetime value tells you so."*

Giving Velocity

Giving Velocity assigns a numerical value to a donor's change in giving over time. The formula is Last Gift Amount divided by Previous Gift Amount. If the result is less than 1, the donor is decelerating; if the result is higher than 1, the donor is accelerating and if the result is 1 they are maintaining their giving level.

Example: Last Gift = \$50, Previous Gift = \$75
\$50 ÷ \$75 = 0.67
Donor is Decelerating

Giving Velocity works well when applied to determine which segments to target for extended stewardship or strategies to increase giving. For example, segmenting accelerating donors to encourage continued moves management or decelerating donors to determine why they are downgrading would be useful implementation of the Giving Velocity metric.

Return on Investment and Cost to Raise a Dollar

Both ROI and CRD are important measurements for overall fundraising success as they give a clear understanding of the value of fundraising activities and how costs impact the annual fund. For more detailed information on ROI and CRD, WealthEngine's white paper Measuring Fundraising Return on Investment and the Impact of Wealth Intelligence provides an in-depth discussion.

The formula for Return on Investment is Net Revenue divided by the Expense of Investment.

Example: Net Revenue = $125,000, Expense = $50,000
$125,000 ÷ $50,000 = 2.5
2.5 x 100 = 250
ROI = 250%

The formula for Cost to Raise a Dollar is the mathematical inverse of ROI, which is Expense of Investment divided by Net Revenue.

Example: $25,000 ÷ $125,000 = $0.20
CRD = $0.20

Acme Charities, Inc.Weekly Annual Fund Project Cost
Total Hourly Salary/Benefits: $19.38

	Direct	Tele-fund	Email	Web	Social Media	Mobile	Events	Other	Total
Mon.	2	1	0.5	0.5	0	2	1	1	8
Tues.	2	0.5	0	0	0	0	3	2.5	8
Wed.	4	0.5	1	0	0.5	0	1	1	8
Thurs.	3	2	0.25	0.25	0	1	1	0.5	8
Fri.	1	1	0.75	0.75	1	0.5	2	1	8
Sat.									0
Sun.									0
TOTAL:	12	5	2.5	1.5	1.5	3.5	8	6	40

Table 5: Sample job costing worksheet

Job Costing and Actual Cost

In measuring Cost to Raise a Dollar (CRD) and Return on Investment (ROI), understanding the Actual Cost of the annual fund will give a much clearer picture of the true cost/benefit. Actual Cost measures all of the direct charges of a project, including staff time, materials, infrastructural costs, and any other expenses incurred by the annual fund.

Using a job costing worksheet, as shown in Table 5, to track the number of staff hours spent on a project multiplied by the hourly salary plus benefits rate will give a fair accounting of the costs beyond the physical costs of the annual fund. As with all staff-related issues, caution should be used in sharing confidential salary and benefit information. It is also advised to ensure that staff understands the tracking of hours is not punitive or used to micro-manage, but instead encourage them to own the process in helping to keep the budget under control.

Weekly Total:		Previous YTD Total		Year-To-Date Total	
Direct Mail:	$232.56	Direct Mail:	$3,873	Direct Mail:	$4,106
Telefund:	$96.90	Telefund:	$2,431	Telefund:	$2,528
Email:	$48.45	Email:	$1,726	Email:	$1,774
Web:	$29.07	Web:	$548	Web:	$577
Social Media:	$29.07	Social Media:	$725	Social Media:	$754
Mobile:	$67.83	Mobile:	$386	Mobile:	$454
Events:	$155.04	Events:	$1,732	Events:	$1,887
Other:	$116.28	Other:	$2,642	Other:	$2,758
Weekly Total:	$775.20	Weekly Total:	$14, 063	Weekly Total:	$14,838

Table 5: Sample job costing worksheet

Additional report templates, showing how Return on Investment (ROI) and Cost to Raise a Dollar (CRD) can be calculated and displayed by program area, can be found in our WealthEngine Institute Toolkit.

RFM

RFM stands for "Recency, Frequency, Money" and is based on the knowledge that a donor's past giving is indicative, or predictive, of their future giving. This can be broken out into the recency of their last gift, how frequently they give and the amount of their donations. RFM is often used in segmentations within the annual fund.

These instructions explain how to score your file for each RFM attribute by quintile.

1. Export your data into Microsoft Excel
2. Rank all constituents by Recency (limit to five years of giving history).
3. Divide the total by 5 – this will give you the number of records to score in each "quintile" or 5th of the file
4. Assign the top 5th – those who have given most recently - the number "5"
5. Continue assigning each 5th of the file a number until you get to the final 5th with the most distant gift dates and assign these the number "1"

6. Repeat these steps by ranking all records for Frequency (number of gifts in a 5 year period – excluding pledge payments, monthly credit card payments and other anomalies)
7. Repeat these steps for Monetary represented by the total giving (again, over a five-year period).

For further instruction on how to use RFM scores in your annual and major giving programs, see the RFM document.

- **Affinity Codes**

  Affinity codes are an additional data point that can be added to constituent records based on multiple factors. Each behavior of a donor – giving, event attendance, contact, ticket purchasing, etc. – can be assigned a weighted numerical score. Those scores are then totaled and individuals with higher scores are said to have a higher affinity, based upon measurable behavior, than those with lower scores.

  For a simple process to develop an affinity code for your constituents, see our document, An Analytical and Collaborative Method for Developing Affinity Ratings.

  Affinity scoring provides analysis of a donor's relationship with an organization and can be a very effective tool in identifying top prospects as well as guiding further cultivation and solicitation activities.

All of the above metrics can be a part of a robust analysis of an annual fund program. There are many more measurements that can be used (many of which are covered in WealthEngine's Growing Individual Gifts workbook) and they are all effective at guiding strategy and reporting on results. No metrics are inherently bad, in and of themselves, but there are a couple that should be approached with caution:

- **Measuring Budget and Results by Channel**

  While measuring success by channel is an important part of an overall strategy, comparing budget to results by channel as a measurement of the success of the whole can cause false negatives. By way of example, Table 6 is a very general report of budget and results by channel.

  This annual fund was considered an overall failure because two of the channels (Direct Mail and Other) fell under goal, despite the fact that the overall campaign was over expected outcomes.

	Budget	Actual	Difference
Total Annual Fund Goal	$2,000,000	$2,075,000	$75,000
Direct Mail	$1,200,000	$1,050,000	**$150,000**
Phone-a-thon	$400,000	$600,000	$200,000
E-Solicitation	$300,000	$350,000	$50,000
Other	$100,000	$75,000	**$25,000**

Table 6: Budget and results by channel

This Time Last Year

Reporting on results by comparing the same time period of the current fiscal year to the previous fiscal year can be a good benchmark to gauge status, however it can be misleading as there are many factors that go into the results. It would be important to question the following:

- Are all things equal? Are we at the exact same place in terms of program, public relations, campaign solicitation, etc.?
- Have we solicited the same pools of prospects in the same time frame? Are we behind, or ahead of, schedule in our solicitations?
- Are we testing any variables? Is that test having an impact?
- Is the world the same as it was then? Has there been a massive change in the economy, politics, national/international tragedy, etc.?

All of these are important considerations in determining whether a same-time-as-last-year is a true measurement of fundraising performance or if this type of reporting will require extensive explanation of the perceived shortfall or overage.

Sample Reports

Table 7 is a sample comprehensive annual fund report combining multiple metrics into one document.

FY2013 Annual Fund Report: March 27, 2013

PLEDGED vs PAID			
Total Dollars Pledged	$342,891	Total Pledges:	2,743
Total Dollars Paid	$263,754	Total Paid:	2,110
Fulfillment Rate	77%	Donor Fulfillment:	77%

SOLICITATIONS							
Solicitations		**Contacts & Contact Rate**			**Pledges/Gifts**		
Direct Mail:	14,682	Direct Mail:	12,754	87%	Direct Mail:	943	7%
Phone:	7,329	Phone:	4,891	67%	Phone:	1,156	24%
E-Mail:	6,592	E-Mail:	3,267	50%	E-Mail:	644	20%
Other:	0	Other:	0	0%	Other:	0	0%
Total:	28,603	Total:	20,912	73%	Total:	2,743	13%

DONOR ENGAGEMENT					
Renewed Donors:	1,876	New Donors:	437	Re-Engaged Donors:	430
Renewal Rate:	68%	ND Rate:	16%	Re-Engaged Rate:	16%

RESULTS BY CONSTITUENCY					
Dollars		**Donor Counts**		**Average Pledge**	
Donors	$289,437	Donors	1,876	Donors	$154
LYBUNT	$36,281	LYBUNT	347	LYBUNT	$105
SYBUNT	$8,427	SYBUNT	83	SYBUNT	$102
NON-DONORS	$8,746	NON-DONORS	437	NON-DONORS	$20
TOTAL:	$342,891	TOTAL:	2,743	TOTAL	

CONSECUTIVE YEAR DONORS							
Donors 2 Years	673	Donors 4 Years	333	Donors 6-9 Years	89	Donors 15 Years	5
Donors 3 Years	489	Donors 5 Years	276	Donors 10 Years	9	Donors 20+ Years	2

ROI and CRD					
Expense		**Revenue**		**Net Revenue**	
Direct Mail:	$42,396	Direct Mail:	$191,638	Direct Mail:	$149,242
Phone:	$67,522	Phone:	$132,512	Phone:	$64,990
E-Mail:	$11,962	E-Mail:	$18,741	E-Mail:	$6,779
Other:	$7,438	Other:	0	Other:	($7,438)
Total:	$129,318	Total:	$342,891	Total:	$213,573

RETURN ON INVESTMENT **$1.65**

COST TO RAISE $ (CRD): **$0.61**

Table 7: Comprehensive annual fund reporting

Table 8 shows a sample multi-channel report.

	Direct Mail	Telefund	Email	Total
Total Solicitations:	25,464	11,612	9,756	46,832
Total Contacts:	8,621	5,973	4,139	18,733
Total Contact Rate:	34%	51%	42%	40%
Total $:	$362,742	$ 153,481	$112,362	$628,585
Total # Donors:	7,218	4,362	3,648	15,228
Total # Gifts:	4,163	3,173	2,827	10,163
Total Participation Rate:	16%	27%	29%	22%
Total Gift Rate:	48%	53%	68%	54%
Renewed Donors:	2,863	1,987	1,899	6,749
Renewal Rate:	69%	63%	67%	66%
New Donors:	215	142	126	483
Acquisition Rate:	5%	4%	4%	5%
Re-Engaged Donors:	1,085	1,044	802	2,931
Re-Engaged Rate:	26%	33%	28%	29%
Average Gift $:	$87	$48	$40	$62
Total Expenses $:	$86,124	$72,136	$31,622	$189,882
Net Revenue $:	$276,618	$81,345	$80,740	$438,703
ROI:	321%	113%	255%	231%
CRD:	$0.31	$0.89	$0.39	$0.43

Table 8: Multi-channel annual giving report

Reporting Recommendations

- **Avoid Analysis Paralysis**
  If a data-driven annual fund is to serve the purpose of building relationships with your constituent base while also raising significant support for your mission, then the focus of the work should be on those activities, not solely on reporting. In some cases, the analysis of the annual fund and the reporting processes become the most time-consuming activities and so many disparate metrics are measured that it leads to staff burnout or complacency.

- **Determine Metrics Up Front**
  To avoid burnout, as noted in Part I, invest time during the annual fund planning process determining what numbers will be measured, the timing of reporting and which staff and leaders need to receive the reporting.

- **Measure What Matters**
  Popular blogger, marketing guru and entrepreneur Seth Godin says, "Measurement is fabulous. Unless you're busy measuring what's easy to measure as opposed to what's important." (http://sethgodin.typepad.com/seths_blog/2013/06/measuring-without-measuring.html). There is a temptation in developing metrics to focus on the "right" measurement or the "best" metric. What's important to determine is what is meaningful in your reporting, which is borne out of the goals and focus of the annual fund. If, for example, the focus of your annual fund is increasing the average gift size of your donors, it may not be as beneficial to invest time in analyzing the participation rates of each segment and channel as it would be to focus on their average gifts.

- **Don't Fall Prey to Rear View Mirror Syndrome**
  Rear-view mirror syndrome refers to the approach to reporting that is always looking backwards or at what has happened to predict the future. Most reporting, with the exception of predictive modeling, is measuring what was to determine what will be. Rear view mirror syndrome can limit creativity, entrepreneurship and risk taking – all elements of a healthy and productive annual fund. Be sure to focus as much energy on developing new ideas, tactics and strategies as you do on analyzing past results.

Chapter Eight:

Stewardship

Historically, during feudalism, a steward was a person charged with the responsibility of taking care of the manor while the lord was away. Originally referring to the food of the estate, it came to symbolize the entire castle and all that belonged to it. The word has evolved to mean caring for something that does not necessarily belong to the caregiver but for which they are responsible.

Stewardship, in fundraising, then, means caring for the investments of donors in the nonprofit's mission – their financial contributions. Donors expect that their money will be used appropriately and effectively for the cause for which it was solicited.

In 2012 the AFP and Urban Institute's Fundraising Effectiveness Project (FEP) reported that, "Every $100 nonprofit organizations gained in upgraded, new, and recovered gifts was offset by $100 in losses from downgraded and lapsed gifts. Every 100 new and recovered donors recruited was offset by 107 donors lost through attrition.[1]

Looked at through the lens of attrition, donor stewardship becomes much more than sending a thank you letter or appropriately receipting a gift; it becomes a critical step in building long-term, sustainable relationships with donors. And since it is typically less expensive to renew a donor than to acquire one, investment in strong stewardship activities reduce fundraising costs overall and help achieve a more favorable ROI.

Stewardship and cultivation are simply two sides of the same coin; in other words, stewardship begins where cultivation ends and vice versa. The actual gift is just one part of the entire relationship process. Stewardship activities can take many forms; these are just a few examples of stewardship possibilities:

- Thank you letter (form letter)
- Personalized thank you letter
- Handwritten thank you note
- Personalized email
- Email blast
- Recognition in program, annual report, donor wall, etc.
- Non-ask/engagement events
- Phone call from staff
- Phone call from volunteer/board
- Newsletter
- E-newsletter
- Magazine
- Behind-the-scenes tour

[1] The Center on Nonprofits and Philanthropy at the Urban Institute and the Association of Fundraising Professionals. " 2012 Fundraising Effectiveness Survey Report, page 2. http://www.urban.org/UploadedPDF/412677-2012-Fundraising-Effectiveness-Survey-Report.pdf

AFP's Donor Bill of Rights lays out the basic rights that all donors are entitled to regarding their contributions. Above all, what donors want is *Acknowledgement*, *Access* and *Appreciation*.

Acknowledgement

Donors want to be told that their gift has been received and is being put to use. Of primary importance is, of course, the receipt. IRS publication 1771 Charitable Contributions–Substantiation and Disclosure Requirements[2] outlines the following requirements for receipting of gifts:

- A donor must have a bank record or written communication from a charity for any monetary contribution before the donor can claim a charitable contribution on his/her federal income tax return
- A donor is responsible for obtaining a written acknowledgment from a charity for any single contribution of $250 or more before the donor can claim a charitable contribution on his/her federal income tax return
- A charitable organization is required to provide a written disclosure to a donor who receives goods or services in exchange for a single payment in excess of $75

Sending a receipt is not necessarily the same as "acknowledging" the gift. The receipt is a transaction – a requirement triggered by the payment of money. An acknowledgment says much more than the amount of money received. A true acknowledgment thanks the donor, tells them why their gift was important and leaves them feeling good about the entire process. In terms of donor relations, the thank you portion of the acknowledgement is often much more important than the receipt. Indeed, the first acknowledgement is the beginning of the next solicitation.

Tips for Effective Acknowledgment:

- **Speed**
  - 48 hours is the general industry standard for turn-around time of the initial acknowledgement
  - It is more important to get a thank you response out first than to wait for the receipt; too often in the annual fund, thank you letters will be held until all receipts are processed.

[2] *Publication 1771 (Rev. 7-2013) Catalog Number 20054Q Department of the Treasury Internal Revenue Service www.irs.gov; http://www.irs.gov/pub/irs-pdf/p1771.pdf*

- The expression of gratitude is more important than anything else, so if signature, approval, data process or anything else is going to delay the thank you letter, it is better to send a short, quick note than to "get it all right" before sending. The rest can be made up later. (For example, if the Executive Director needs to hand sign all thank you letters, it would be better to get an initial "thank you" email from the annual fund manager within 48 hours than to wait until the ED can sign. That signed letter can go later.)

Accuracy

- Always ensure that all demographic elements are correct before sending the acknowledgement letter – name fields, salutations, address, and gift amount should all be verified before sending. Few things will upset a donor more than not getting their personal information correct in a thank you letter

- Capture donor preference fields in regular communication – provide donors the ability to indicate how they prefer to be listed, addressed, and what their preferred name and salutation is. Ensure that these are tracked in the database and review them as part of the data audit process.

Engaging

- Follow your organizational style, but work towards a warm, friendly and engaging manner of acknowledgment, supported by genuine gratitude

- Try to avoid flowery or formal language, but speak directly to the donor's interests, passions and personality – the "thank you" is people talking to people, not an organization talking to people

Sincerity

- Donors can see through insincerity quickly and will dismiss an acknowledgement that does not come across with true appreciation. This spirit of gratitude should be organization-wide and infused in all communications.

- Specificity plays a huge role in sincerity. For example, compare the phrase "Thank you for all you do" to "Thank you for ensuring our education programs continue to grow." Noting the specific outcome tells the donor that you know why they gave their gift.

Access

When there is a strong relationship between donor and nonprofit, there is an ownership and involvement the donor feels towards the organization. There is also a certain cachet that comes with being a donor – this is why bumper stickers, lapel pins, t-shirts and the like have always been popular gifts; because they are something only the donor can get and not available to the general public.

Whether giving at a major level or lower annual fund level, donors want to be able to say, "I know something you don't know." Behind-the-scenes tours, receptions with leadership, personal notes from personalities – every organization has something that can make donors feel like they're special and have access to areas others don't.

Donors also have a need – and a right – to know how their money is being spent. This part of access informs the donor what their investment has done and continues to do towards furthering the mission of the nonprofit and engaging the personal interests, and passions, of the donor. Annual reports, endowment reports, and information regarding the fiscal and programmatic health of the organization can all help fulfill this need by providing insider information. Invitations to see mission in progress, such as visiting a classroom, watching a dress rehearsal, or meeting with primary care givers can also provide donors with the access they deserve.

Appreciation

In many studies donors cite the number one reason they stop giving as a lack of communication and feeling unappreciated. They will also indicate a feeling of only receiving communication to ask for money. Donors want to feel appreciated.

Too often, appreciation techniques are conducted on auto-pilot and without a sense of true appreciation. Creating a culture of gratitude is essential in ensuring a sincere appreciation of donors' support and maintaining healthy relationships.

Appreciation, then, has to go beyond the simple thank you letter and name recognition. It is a regular activity, engaging donors and ensuring they understand how important they are to the organization, not just their support.

Creating a "Culture of Gratitude"

Appreciation of donors is not something that should only involve the development office or key volunteers, but should instead permeate the entire organization. Every person involved in a nonprofit, from staff to students to the community should know that it is because of donors the nonprofit exists and is able to fulfill its mission.

Some ideas to create an organizational Attitude of Gratitude:

- Celebrate an institution-wide Philanthropy Day
- Organize a board/volunteer phone thank-a-thon
- Create an internal publication of donor stories
- Recognize donor-supported initiatives on social media
- Encourage staff to conduct behind-the-scenes tours
- Label physical elements with "Brought To You By Donor Contributions"
- Take pictures/post video of "mission-in-action
- Involve all-staff in thank you letter writing
- Film and post an organization-wide donor thank you video
- Recognize donors on social media (with their permission)
- Include non-fundraising staff in donor acknowledgment events
- Model behavior from the top-down by asking senior management to write thank you notes, engage in events, etc..
- Encourage social media participation – from staff, donors, community, etc. – how?

Because of the importance of stewardship to your donors and your organization, it is imperative that you plan stewardship activities as carefully as you plan solicitations, events or other aspects of your annual giving program. The list below suggests some examples for your reference:

1. Determine Goals

- Create a comprehensive stewardship plan for all donors at all levels
- Include a minimum of three touch points per year for all donors
- Develop a systematic process for acknowledgement and engagement
- Create an organization-wide focus on donor retention

2. Establish Parameters

- Acknowledge all gifts within 48 hours
- CEO letter to all one-time donors of $1,000+
- Hand-written note to all donors $500+ (use staff/volunteer time)
- New Donor Packet to all donors $5,000+
- All donors receive electronic/online Annual Report
- Donors $1,000+ invited to quarterly "Lunch with Staff" events
- All donors receive three, six and nine month "anniversary" letters

3. Create and Curate Materials

- Initial Thank You letter – direct mail and email format
- Three-month anniversary letter
- Six-month anniversary letter
- Nine-month anniversary letter
- New donor packet
  - Welcome letter
  - History, Mission, Vision background
  - "Service in Action" one-pager
  - Contact List
- Event schedule and collateral (invitations, programs, press, etc.)
- Receipts
- Thank you cards for hand-written notes

4. Develop a Communication Plan

Timing	Stewardship Activity
Daily	Previous day's donation acknowledgements – email/mail
Weekly	Previous week's receipts Phone calls to major donors CEO signature on thank you letters Mail handwritten notes (collected daily when completed)
Monthly	One day per month, phone calls to previous month's donors New Donor packets mailed Quarterly event invitations/plans
Quarterly	Recognition/Behind-the-Scenes events
January	Report on previous year – achievement of goals, report on service delivery, plans for
February	"We Love Our Donors" Valentine mailing
March	Annual Report delivery – electronic and snail mail
April	Annual Gala and recognition

Timing	Stewardship Activity
June	Mid-Year Report
July-October	Ongoing stewardship, events, etc.
November	Thanksgiving greeting/National Philanthropy Day
December	Holiday greeting
As Needed	Project/program updates – newsworthy happenings

5. Track, Monitor, and Adjust

- Include "stewardship survey" in mid-year e-blasts to gauge reaction to activities. Are you receiving too much communication? Too little? About the right amount?
- Review delivery – are all receipts being mailed? All acknowledgements timely?
- Review budget – over/under stewardship goals?
- Adjust message periodically throughout the year
- Monitor social media – what are donors saying?
- Create hashtag for supporters/donors – monitor activity

For information on including stewardship in your annual fund planning, see chapter 3.

Additional Giving as Part of Stewardship

A vital part of any stewardship program is encouraging additional giving. While a robust stewardship program should include multiple touch points that are not "calls to action" (that is, do not contain an ask or response component), to leave out any possibility of additional giving would miss great opportunities with donors.

According to the Fundraising Effectiveness Project's 2013 survey[3], only 23% of new donors will give again after their first gift. Of those that do give a second time, however, 61% will give yet again. Encouraging a habit of giving and engaging the donor on a personal level are the keys to increasing repeat giving.

It is important to remember that donors tend to identify with a calendar year and not necessarily with a fiscal year. For example, a donor who gives in March and then again in October may have actually given in two separate fiscal years, but in their minds they gave in one calendar year.

[3] *The Center on Nonprofits and Philanthropy at the Urban Institute and the Association of Fundraising Professionals. " 2013 Fundraising Effectiveness Survey Report http://www.urban.org/UploadedPDF/412906-2013-Fundraising-Effectiveness-Survey-Report.pdf*

Second Ask/Additional Gift

A second ask or additional gift is another gift given within the same fiscal or funding year. According to research, those who give a second gift in the first year of giving are two-and-one-half to three times more likely to renew in year two!

Clear communication and recognition of donors for their gifts, in total, are the keys to creating a robust second ask/additional gift giving program.

Recurring Giving

Recurring giving is any donation strategy that occurs multiple times within one fiscal year on regular intervals – monthly, bi-monthly, quarterly, etc.

The benefits of recurring giving are manifold: they encourage regular giving from donors, allow for donors to give at higher levels with lower regular payments, they can be auto-debited from debit/credit cards and they provide a regular, dependable revenue stream for the organization.

Following are some of the key elements for creating a successful recurring giving program:

1. **Ensure the organization's buy-in**
   The old adage of "a house divided" will certainly apply if all levels of leadership are not committed to supporting a recurring giving program. Volunteer leadership may feel that it's intrusive or that no-one will participate. If everyone does not agree that it is an effective program – and is therefore not committed to it – it remains a challenge and may prove problematic

2. **Develop the infrastructure to support the program**
   Recurring giving will require staff involvement, specialized systems within the CRM (that may, or may not, be inherent to the product) and targeted stewardship/acknowledgment techniques. Ensure that these elements are in place and functioning to support the program.

3. **Identify the most likely prospects**
   Look for those donors who have more frequent giving or who give regularly, particularly those who give smaller amounts multiple times per year. Review their giving patterns to determine the best fit for recurring giving.

4. **Target via higher-touch methodologies**
   Even as part of a recurring giving program, these donors' dollar amounts may not be high, but their frequency of giving indicates a strong allegiance to the organization and its mission. Using higher touch methodologies is the appropriate stewardship to complement how they identify themselves as part of the organization.

5. **Be specific with case and acknowledgement**
   Specifically state what the recurring giving will be used for and what it has helped accomplish. Recurring donors should be recognized for their total giving on a fiscal year basis, not just the amount of their last gift. Determination should also be made as to how and how often they will receive thank you letters and receipts.

6. **Test response and efficacy**
   Measure the response rates to recurring giving solicitation, as well as the amount of dollars the program raises compared to the costs associated.

Chapter Nine:

Using Wealth Intelligence in the Annual Fund

Effective wealth intelligence combines the art of using wealth, lifestyle and biographical research data with the science of advanced analytics and data-mining techniques. It goes beyond simply understanding the wealth and biographical attributes of individuals, and provides an analytical approach to using research data. This is important not only for researching prospects, but for setting organizational priorities, determining an overall fundraising or marketing strategy, segmenting and prioritizing prospects, and improving interactions with constituents, donors and prospects in order to build long-term relationships and drive long-term value.

Wealth intelligence plays a critical role in the annual fund in three important ways:

- Moves management strategies
- Additional solicitation/channel segmentation
- Developing and evaluating ask amounts

Moves Management

In the context of moves management, wealth screening in the annual fund allows for identification of those donors who potentially have the capacity and propensity to give at higher levels than they are already. This potential allows for the development of strategies to both identify the next generation of leadership and/or major donors, as well as those who should be upgraded to higher gift amounts within the annual fund structure itself.

Take, for example, this sample database of nearly 26,000 donors for Acme Charities; all records have some level of giving within the last three years. The results from a wealth screening showed the following:

						Estimated Giving Capacity						
P2G	**5M+**	**$1M - $5m**	**$500K - $1M**	**$250K - $500K**	**$100K - $250K**	**$50K - $100K**	**$25K - $50K**	**$15K - $25K**	**$10K - $15K**	**$5K - $10K**	**Up to $5K**	**Total**
1	37	309	717	571	338	204						2,177
2	7	14	24	511	721	1,247	1,946	2,481				6,953
3						5,280	3,913	1,309	1,114	1,300	226	13,145
4						336	451	210	226	316	83	1,626
5											1,885	1,890
Total	44	323	741	1,082	1,059	7,067	6,310	4,000	1,340	1,616	2,194	25,791

Table 9: Sample data base cross tabbed by Propensity to Give(tm) and estimated giving capacity

Using a combination of P2G (Propensity to Give) Score (a proprietary WealthEngine Score which could be substituted with an affinity score) and Estimated Giving Capacity range, the database is divided into three Tiers of priority.

- **Tier 1** – Major Gift prospects; managed in Major Gift Officer portfolios
- **Tier 2** – Leadership Giving within the Annual Fund
- **Tier 3** – Focus on renewal and moderate ask increases

Estimated Giving Capacity												
P2G	**5M+**	**$1M - $5m**	**$500K - $1M**	**$250K - $500K**	**$100K - $250K**	**$50K - $100K**	**$25K - $50K**	**$15K - $25K**	**$10K - $15K**	**$5K - $10K**	**Up to $5K**	**Total**
1	37	309	717	571	338	204						2,177
2	7	14	24	511	721	1,247	1,946	2,481				6,953
3						5,280	3,913	1,309	1,114	1,300	226	13,145
4						336	451	210	226	316	83	1,626
5											1,885	1,890
Total	44	323	741	1,082	1,059	7,067	6,310	4,000	1,340	1,616	2,194	25,791

Table 10: Three tiers of priority based on P2G and estimated giving capacity

Tier 1 - Prioritized for Major Gift Portfolios

Tier 2 - Prioritized for Leadership Annual Fund/Increased Ask Amounts

Tier 3 - Primary Focus is Renewal with Incremental Ask Increases

Giving capacity and propensity to give can be combined with your organizations annual giving segmentations, such as LYBUNT, SYBUNT and last gift amount ranges, to create personalized solicitations for each constituent.

Additional Segmentation/Channel Strategies

Once the segmentation is established, wealth intelligence codes can be incorporated into the existing solicitation structure. Higher rated prospects within the annual fund are slated for higher touch methodologies with focus on increasing level of giving.

For example, a LYBUNT donor who typically gives in the $100-$249 range may be targeted for direct mail renewal based upon their previous level of giving and their giving history (lapsed). A LYBUNT $100 - $249, though, who is coded as a P2G-3 with Estimated Giving Capacity range of $25,000 - $49,999 may be slated for cultivation and solicitation by phone, which is a higher touch, more expensive methodology. This option would be selected based purely on the potential of the donor to give more if given a higher level of personalized involvement.

Ask Amounts

Wealth intelligence can play a role in developing ask amounts. In Part II we discussed the utilization of wealth scores to develop acquisition asks and predictive modeling to increase donor upgrades. In the context of modeling, wealth scoring can provide an additional variable contribution to the model giving further information on the donor's capacity. In the absence of predictive modeling, estimated giving capacity can point to a donor's giving potential and suggest those individuals who are contributing at lower levels who have the ability to give at higher levels.

Simply subdividing a segment of your donor population into capacity "bands" and asking for successively higher gifts based on capacity band is an easy way to increase net revenue and move donors up the giving continuum a bit faster.

For example:

Segment/Last Gift	Capacity	Propensity to Give (P2G)	New Ask
LYBUNT $25-$100	Under $25,000	P2G 3	$100
LYBUNT $25-$100	$25K-$100K	P2G 3	$250
LYBUNT $25-$100	Over $100K	P2G 3	$500

Table 11: Ask amounts based on estimated giving capacity

Wealth data is also essential in helping annual fund staff act in partnership with major and planned giving programs to refer prospects to these programs when warranted. The more the annual fund staff uses data and wealth intelligence in their segmentations and understanding of the organization's constituents, the more effective the entire fundraising team will be.

Conclusion

For many, if not most, nonprofit organizations, annual giving is the lifeblood and foundation for all fundraising. Having a healthy, productive and innovative annual giving program as a stand-alone fundraising mechanism, or as the underpinning for major, planned and corporate and foundation giving, can mean the difference between success and failure.

Our three part workbook, The Data-Driven Annual Fund, is intended to help nonprofits of all types and sizes develop and hone their annual giving programs to enhance their missions. Nowhere in fundraising is data more important than in the annual fund and learning to interpret, understand and act on the data you collect is a key best practice in annual giving as well as all other fundraising programs. Whether you are testing your case, making resource allocation decisions or setting goals, data should be at the heart of your decision making.

In addition, the annual fund is a consistent reminder to your community and your constituent base of the importance of your work and mission. As both a critical part of a comprehensive fundraising plan and a conduit for identifying and developing the next major or planned gift donors, a truly successful annual fund requires regular attention, focus and detail. From the cleanliness of the data to the reporting on results, a clear, focused strategy to annual giving will yield huge dividends in increased dollars and donors and a positive return on investment. And, equally as important, it will tell the story of your nonprofit's important work in making the world a better place.

We hope this workbook helps your organization focus more attention and resources on annual giving, on data collection and maintenance, and on data-informed decision making. These are processes and skills that will serve you well in every aspect of nonprofit management.

Key Takeaways Part Three: Reporting and Return on Investment

1. **Ensure that metrics are relevant, measurable, and actionable** and are tied to your organization goals.
2. **Clearly define metrics** for all audiences.
3. **Measure what is important** and be cautious of spending too much time and resources on over-reporting or "analysis paralysis".
4. **Donors want access, acknowledgment and appreciation** - create a cultivation and stewardship plan that supports all three.
5. **Build the infrastrcture** to support a robust recurring giving program.
6. **Wealth Intelligence can play a role in the annual fund** in helping target segmentations and develop increased ask strategies.

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