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Remarkably Outstanding Implementation: The Foundation of Positive ROI with Target Analytics®

Lawrence Henze

" It is often said—but not frequently by me—that nonprofits and higher education institutions should operate more like profit-making ventures. In recent years, our community has done just that by placing significant emphasis on return on investment, or ROI. A short acronym and valid aspirational goal, it's truly more substantial in its application. With both short and long-term implications, the true gift of positive ROI is that it may drive us to success over the course of many years, which is an outcome I wholeheartedly support."

*— Lawrence Henze,
Blackbaud Target Analytics®*

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Background

With 36+ years in the fields of institutional advancement, predictive analytics, and higher education/nonprofit consulting, I've seen many concepts come and go. It's only in the last few years that many nonprofit, college, and university staff members have specifically been raising the question of ROI in meetings, consulting sessions, or conference workshops. And the timing makes sense, because the recession remains closer than it appears in our rearview mirror and some organizations are still striving to return to pre-2008 budgets and staffing. But ROI is not an entirely new concept; it is a new name for an old pursuit.

In 1980, I began this career that I love. At that time, one of the first concepts I learned was the cost-per-dollar-raised ratio, which is simply the cost across the fundraising operation to raise a dollar. In truth, it was not so simple: Operationally, it often excluded costs of tangential organizational functions that aided fundraising efforts, thus creating an artificially low cost per dollar raised. Relatedly, although maintaining a low ratio was interpreted as efficient fundraising, it often begged the question—how much additional money might be raised if the organization was willing to spend more to make more? After all, if you worked in a foundation that maintained $.12/$1.00 ratio (which I once did), wouldn't you want to test the fundraising potential if you doubled that cost? What if you maintained that lower ratio due in part to a small major and planned giving staff and a limited travel budget? Aren't these questions that are pertinent? Isn't the willingness to spend more money to make more money at the heart of capital and special gift campaigns?[i]

So, like so many things in life, there is no solitary answer to this question: "What is an appropriate ROI for our organization?" Or this one: "What is the ROI we should expect from an analytics project with Target Analytics®?" As we know all too well in this disclaimer-laden world, *actual results may vary*!

It is appropriate to expect positive ROI from data analytics, but remember that expectations must be fueled by actions! One of the core reasons I love data analytics in the world of fundraising is that it can drive us to achieve positive ROI and help us to determine an appropriate return on investment for our organization. It can lead us to donors and prospects with the best giving potential, and lead us away from efforts solely justified by "the way we've always done it." And that will create positive ROI!

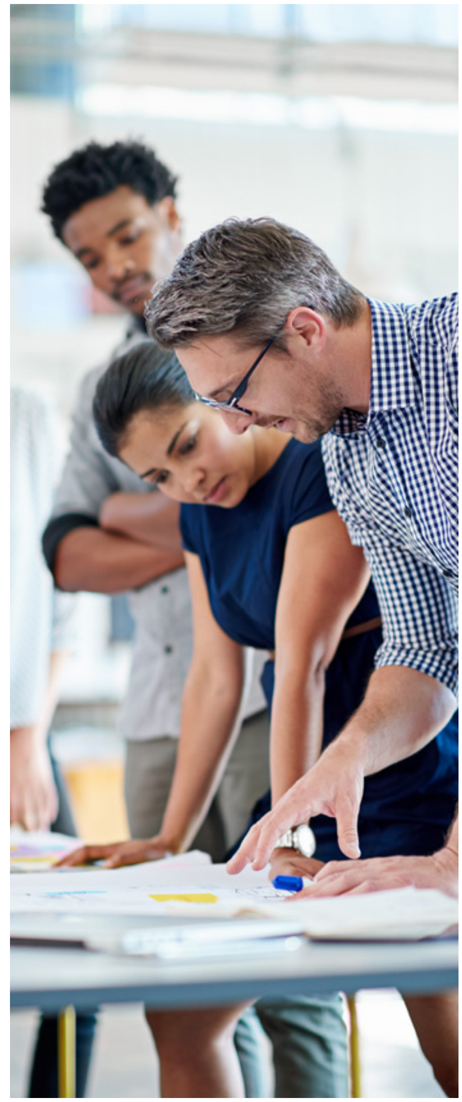
Defining ROI in the World of Philanthropy

In the investment world, ROI is represented by the equation ***net profit/cost of investment x 100***. And if we choose to represent the ROI of a data analytics or screening project over the cost of a year, we'd use the equation ***net gain in gift revenue/cost of analytics project x 100***.

If we're interested in achieving the largest possible ROI, we might be tempted to literally interpret the "more bang for the buck" model and change the equation to ***gain in gift revenue/cost of analytics project x 100***. However, we would be hard-pressed to think of examples in which the entire gain in gift revenue is appropriately allocable to the data analytics project's success.

So it is most likely that the ROI of an analytics project will be the best estimate of the following variables:

1. The gain in revenue that will be attributable to the project
2. The answers analytics provided about the results of the project, such as:
   a. The average principal gift increased by 52%, or
   b. The number of annual leadership prospects increased by 411%
3. Cost of the data project
   a. You might think this is the easiest part to determine, yet you may have difficulty allocating costs of a necessary, related data hygiene effort that will only now become part of your database maintenance regimen
4. Cost of changes to your fundraising plans, including:
   a. Staffing
      i. You may have already committed to increase staff, but results of the project offer guidance as to the assignment of new staff
   b. New initiatives, such as stewardship events or a mid-level giving program
   c. Travel
   d. Ongoing analytics
5. Reduced expenditures derived from the efficiency gains suggested by analytical results and associated consulting, such as:
   a. Reduced solicitations of poorly rated prospects (or none at all)
   b. Consolidated solicitations of best prospects
   c. Full or partial elimination of dysfunctional silos in fundraising
   d. Better distribution of highly rated prospects in gift officer portfolios
   e. Appropriate metrics to use for program and staffing evaluations



However, unless you implement the suggested programmatic changes from the analytics project, your discussions on the calculation of ROI will be rendered moot—it would be unreasonable to expect a positive ROI.

Yes, the list could go on and on, but this is a white paper and not a treatise. Let's just say that it's worthwhile to do the following in your efforts to calculate a meaningful ROI:

1. Establish the simpler ratio of revenue gains/project costs as a base
2. Focus on the main objectives of the data analytics project (principal giving, retention, and annual giving upgrades, for example) and look for specific achievements in each of those areas
   - **a.** Success at the top of the mythical giving pyramid may account for positive ROI on its own
3. Look at the bigger picture of your institutional advancement progress
   - **a.** Perhaps it's difficult to ascertain the percentage that is directly attributable, but it's highly likely that some of the growth is related
4. Remember that fundraising and advancement should have both short and long-term goals
   - **a.** ROI should be calculated in the first year *as well as subsequent years*
   - **b.** Although short-term success in top-of-the-pyramid giving is achievable, it's also likely that major and principal gifts will take time to cultivate
   - **c.** Planned giving ROI is truly difficult to measure in the short-term. You may not be able to ascertain actual ROI for planned giving modeling, but you can increase your chances by using modeling scores to retain donors with the greatest likelihood to give.

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ROI: Simple or Complex

Modeling, asset and wealth data, and data hygiene solutions are tailored to customers' needs. The implementation strategies may differ between organizations, but many that have worked with Target Analytics® have seen the following results:

Annual Giving
8% of revenue attributed to new annual donors ***post modeling***

Annual Giving
Excellent annual giving prospects are ***12X more likely*** to give

Major Giving
37% of major donors had ***never given*** prior to modeling

+1000

Major Giving
41% of major/lead gifts are received by principal gift donors

Principal Giving
Lead gift rate is ***14X higher*** post modeling

Principal Giving
Post modeling, the ***average gift was $320,000***

Implementation Methods to Promote Remarkable ROI

Many of the Target Analytics® projects use past and current giving and relational data, and enhance that information with financial, wealth, and behavioral data to predict the future philanthropic behavior of your current individual and household donors. These projects are designed to identify best prospects for future charitable giving by type and gift amount. In the process, the projects establish what your organization does very well and indicate areas for improvement. Therefore, ***if you choose not to implement the results of an analytical project, you should not be surprised if your organization maintains its fundraising status quo***. Who wants that?

Because you want the results of your analytics project to enable and inspire new levels of fundraising success, what are some of the actions you can take to maximize your ROI?

1. If you want to ensure that your advancement team is committed to implementation, secure their buy-in from the beginning.[ii]

2. Although your chief advancement officer may not be involved in the day-to-day implementation of your analytics project, he or she should make it known that the implementation of the results has his or her full support. Since the chief advancement officer is likely to be the one asking for a positive ROI, his or her support is necessary.

3. Do not overreach in the models and data assets you acquire. The corollary: Don't exceed your current resources available for implementation if you do not know that additional staff or budget is forthcoming. It can be terribly frustrating to know that you are unable to implement important components of the project.

4. Once you've determined the scope of the analytics project and signed the contract, the planning for implementation begins in earnest. Designate a project leader and team, and brainstorm on possible applications of the analytics data. Ask your Target Analytics account executive or solutions consultant to suggest other organizations to contact to discuss their planning strategies.

5. Work closely with your Target Analytics consultant to establish a timeline for implementation that is both feasible and challenging. We know that analytics projects implemented soon after delivery and following a timeline are much more likely to achieve success and positive ROI.

6. Of all your existing plans, Target Analytics scores are easiest to apply to your annual giving or membership programs. Scores supplied by the Target Analytics team (such as annual giving likelihood or target gift range) can help you achieve immediate program results in the short term and translate to increased buy-in.

7. An underused but ultra-effective strategy is reducing or eliminating your solicitation of lapsed donors or individuals predicted not to give in future years. Don't waste your money chasing unresponsive individuals. Reallocate those resources to individuals most likely to support your mission.

8. Modeling identifies individuals in your database with far greater potential to give than their past behavior alone indicates. Take advantage of the opportunity to shorten the time spent stewarding these prospects.

9. Unless you've screened your database recently, modeling will typically identify many more principal and major giving prospects (if you select those models) than you've previously identified. But you probably won't have sufficient staff levels to assign a team member to each of these new prospects. So moving unassigned top prospects into a transitional program featuring high touch engagement activities will begin the process of cultivating their larger gifts and encourage donor retention.

10. Planned giving prospects will be a bountiful outcome of modeling. Include new planned giving prospects in marketing streams and focus on retaining these individuals through giving and engagement activities. It will increase the likelihood of your organization receiving a planned gift.

11 A recent major giving study[iii] performed by Target Analytics® revealed that as donors reached giving levels of $10,000 to $100,000, their gifts were frequently preceded and followed by years of no giving activity. This suggests that the approach to major giving within these nonprofits may have been focused on a one-time commitment. Based on this data, I believe that organizations would be better served by a long-term, sequenced annual pledge that increases in amount each year. For example, a five-year pledge of $100,000 may be paid out as follows:

By the end of the pledge period, you have a donor contributing $20,000 more annually, and you are positioned to solicit another multiyear commitment with a much larger base amount.

12 Track results, issue progress reports, and work to build momentum beyond the initial year of implementation. If you track and monitor the components of ROI consistently, you'll have data necessary to evaluate your project, build on successes, and improve areas in need. The next time you seek funding for another project, it will be easier to build on your success and secure necessary resources.

13 Finally, with many organizations, analytics efforts are structured on a project-to-project basis. I believe that we've reached an industry tipping point in which analytics should be a critical component of annual budgeting. If we integrate data hygiene and analytics into the core of our operations and set annual goals accordingly, positive ROI should become the fabric of our fundraising goals.

Conclusion

At Target Analytics®, we're interested and invested in every analytics project you undertake, and we understand the increased interest in demonstrating that you're achieving positive ROI. We share that goal with you.

In this paper, I've shared many of the techniques and strategies that have helped Target Analytics' customers achieve ROI success in their own analytics projects. I know that many of you have more success stories, and I hope that you'll share those with me at lawrence.henze@blackbaud.com. Thank you for reading!

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[i] Dan Pallotta, "The Way We Think About Charity is Dead Wrong," March 2013,
[ii] Melissa Bank Stepno, "The Race is One for Transformational Donors," February 2016
[iii] Target Analytics Research

About the Author

Lawrence Henze has worked in the nonprofit sector for 36+ years, with the first 13 years focusing on development and marketing positions in the nonprofit sector, primarily in higher education. Since 1993, he has worked in the field of data and predictive analytics, creating analytics services and consulting on behalf of organizations in the United States and Canada. Lawrence is a frequent presenter at nonprofit conferences across the United States and Canada, covering subjects that include annual giving, planned giving, relationship management, and predictive analytics.

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About Blackbaud

Serving the worldwide philanthropic community for 35 years, Blackbaud (NASDAQ: BLKB) combines innovative software, services, and expertise to help organizations achieve their missions. Blackbaud works in over 60 countries to power the passion of approximately 35,000 customers, including nonprofits, K-12 private and higher education institutions, healthcare organizations, corporations, foundations, and other charitable giving entities. The company offers a full spectrum of cloud and on-premise solutions, as well as a resource network that empowers and connects organizations of all sizes. Blackbaud's portfolio of software and services supports nonprofit fundraising and relationship management, digital marketing, advocacy, accounting, payments and analytics, as well as grant management, corporate social responsibility, and education. Organizations that use Blackbaud technology raise, invest, manage, and award more than $100 billion each year. Recognized as a top company, Blackbaud is headquartered in Charleston, South Carolina and has operations in the United States, Australia, Canada, Ireland, and the United Kingdom. For more information, visit www.blackbaud.com.