Taking Control of Your Annual Fund
Your annual fund is the first step to securing donor loyalty

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Executive Summary

New donors traditionally start out by giving to an organization's annual fund. As a result, annual funds offer a unique opportunity to begin the process of building donor loyalty. But dozens of repeat solicitations each year will not do the trick; rather, nonprofits need to measure their efforts and target their appeals with the right message and the right approach. Done poorly, each lost opportunity can cost a charity thousands of dollars over a person's lifetime. Done correctly, you can improve your annual fundraising results, create loyal donors, and identify those people who are most likely to become your best planned giving and major gift prospects. Simply put, your annual fund is the cornerstone of a successful fundraising program.

The Five Aims of Annual Giving

Almost every nonprofit has an annual gift fund — and these funds are the building blocks for major and planned giving success. Annual giving is the name given to solicitation efforts that are designed to achieve five aims:

- To promote introductory giving
- To reach large groups of individuals
- To promote loyal giving
- To be efficient and cost effective
- To minimize the intrusion into a donor's life

Although organizations generally incorporate the first three aims into their equation, they often forget about the final two goals.

Many charities rely on direct mail campaigns to solicit small donations from a large pool, and they hope in the process to reel in people who will become loyal donors. The problem, however, is that the bar is generally set too low and the solicitation strategy is scattershot at best.

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To explore the problem, I randomly selected 50 national and regional charities and gave each an unsolicited $10 donation in 2001 in order to find out how the nonprofits would treat me going forward. In the first year, 21 of the nonprofits sent me 18 or more mailings to try to get me to repeat that $10 gift. And the problem has only gotten worse over time. During 2002-2004, I added an additional 150 charities to my test group. Once again, I gave each an introductory $10 donation. Now the 200 organizations are sending me an average of 14 mailings each — or 2,800 direct marketing pieces per year.

Anyone who has felt hounded by a direct mail campaign knows that exasperated people do not make good sales prospects. And yet nonprofits too often alienate the very donors they are trying to reach. As donors are increasingly demanding to see good business practices from their charities, nonprofits can no longer afford to ignore efficiency and cost effectiveness in their operations. A successful annual giving campaign must not just ask for a donation — the ask must be done strategically.

A Stepping Stone to Big Money

Research has shown that annual fund donors represent a nonprofit's future major contributors. Many of those individuals you count on for donations year after year are, in fact, your best major gift and planned giving prospects. A donor can be defined as reaching the loyal donor threshold when he or she has given to your organization in a minimum of three of the past five years, or 60 percent of the time. Once people achieve this threshold, they are much more likely either to advance to a higher level of annual giving or to make a planned or major gift.

There are, of course, exceptions to this rule. As people get closer to the end of life, they are statistically more likely to make a major gift in support of their religious beliefs — whether or not they have ever given before. Similarly, a grateful patient may give a major donation to the hospital that treated her. In addition, a gift to an annual fund will not necessarily help you predict who is likely to give to a capital campaign. A sports fanatic, for example, may decide to support construction of a new basketball arena at his college even if he has never — and is never likely to — provide a dime for academic programs.

My research indicates that after six solicitations per year, the likelihood for long-term loyalty diminishes significantly. As a result, it is important for charities to focus on building long-term relationships rather than on squeezing an extra $20 from donors in any given year. It is time to realize that seventh fundraising letter sent in a year is likely to alienate the same small donor who might otherwise be a good prospect for a large gift a few years down the road.

The Role of Data Modeling

There are three different types of models available — generic, prescriptive and custom. Generic modeling allows you to build a profile to describe charitable giving in the United States. Prescriptive modeling, which relies heavily on industry data, can help you predict who is likely to give to an organization like yours. Custom modeling, meanwhile, allows you to build a profile of giving behavior that is unique to your organization.

About the Author

Lawrence Henze, managing director of Target Analytics, has extensive experience in fundraising, market research, and the application of predictive modeling services to the nonprofit marketplace.

The founder of Core Data Services, which Blackbaud acquired in 2001, he has also served as vice president of predictive modeling services at USA Group Noel Levitz and president of The Philanthropic Division of Econometrics, Inc.
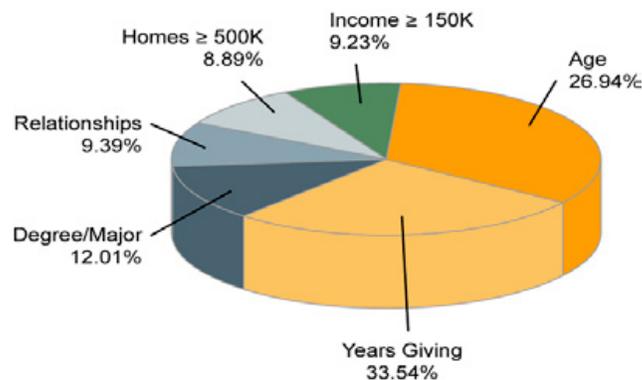
Mr. Henze has 15 years of experience in development, raising more than $125 million, primarily for higher education institutions. During his career, he has personally reviewed the giving histories of more than 30,000 planned givers across the country. He holds a BA in political science from Carroll College in Wisconsin, and an MA in public policy and administration and a law degree from the University of Wisconsin at Madison.

Custom modeling is the only one of the three models that will predict which of your annual gift donors are likely to make a larger gift.[1] This is because annual gift characteristics vary significantly from one charity to another and even vary within multiple chapters of the same organization. Someone giving to the United Way in Miami may be concerned about people displaced by the latest hurricane, while those giving in Los Angeles may be interested in bridging the gap between the city's rich and poor.

Using your own data, a custom model will factor in the demographic, relational, and financial variables applicable to your donors. The custom model will also factor in the strength of each individual's relationship with your organization and help you to identify and rank the best prospects in your annual fund database. This will enable you to better understand your donors' relationships with your organization — and then turn that knowledge into fundraising results.

Equally important, you want to avoid modeling based on one-time donors. Whether they gave in response to a natural disaster, in honor of a deceased relative, or in support of an aspiring marathoner, the fact that they never repeated the gift suggests that pursuing them is a waste of both time and money. Because your aim is to identify and encourage repeat giving, build your model based on donor loyalty.

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This is just an example of what a custom model could look like. Yours will vary depending on your goals, your donor demographics, and much more.

A target gift range custom model can be a valuable tool in figuring out how much your annual gift prospects can give in a 12-month period. This is instrumental in understanding your annual gift donors and building the appropriate relationship with each. Because while some of your $10 donors will stay at that level, others may be more than willing to give $250 or even $1,000 annually if they are just asked — and asked the right way. In fact, one of the top three reasons people do not give is that they are asked to give too little. (The other two reasons: they are not asked at all and they do not support the nonprofit's mission.)

Using Data for Targeted Marketing

Once you have your custom model, it is easy to begin applying the results. The model will assign a score to each prospect, indicating his or her likelihood to give and suggesting a gift size. You can then use this information to segment your database. For those with high scores (and large assets), for example, you might want to consider personalizing your fundraising efforts; for those with low scores, it may be time to either cut back on mailings or even pull the person from your database.

[1] For details on custom modeling, see Using Statistical Modeling to Increase Donations. The paper is available on the web at www.blackbaud.com/resources/white-papers.aspx#Prospect.

It is becoming more and more common for donors to make small, initial contributions in order to see how a charity will respond. While too many organizations blow their opportunity to build loyalty by sending 20-25 follow-up solicitations in hopes of securing another small donation, savvy charities are investing in target gift range models and customizing approaches that work. For example, if you know a museum donor's taste runs to post-modernism, wouldn't it be more effective to talk about the 20th century collection than to send a one-size-fits-all letter about the museum's general collection? And if a person receives a high score and appears to have significant assets, wouldn't it make more sense to cut out the direct mail entirely in favor of one-on-one cultivation?

In addition to crafting different messages for different donors, it is equally important to offer donors information about how their gifts will be used. Maybe a $250 donation to a relief organization will feed 1,000 refugees for a day or a $500 gift to a health care charity will allow 5,000 children to be vaccinated against tuberculosis. The more donors recognize the impact of their gifts, the more likely they are to bond with your nonprofit's mission and become loyal donors.

Even if your organization is not yet ready to invest in a custom model, here is a strategy you can test to enhance donor loyalty. First, identify those annual fund donors who give consistently to your organization (at least three times in the last five years) in the same month or same quarter. Once you know who they are, solicit them during that time. And let them know what you are doing.

Say, for example, that someone always seems to give in April. Mention in your fundraising letter that you noticed that they like to give in April and that, if they respond with a gift, you will not send them requests the rest of the year. And point out that this allows your nonprofit to reduce costs and make their gift more valuable. This will make you an efficient and cost-effective organization, which is always important in building donor loyalty.

Success Stories

A custom annual fund model is easy to implement. Once you understand the target gift range capacity of the people in your donor database, you can develop different messages for different categories of annual gift donors. While you might continue to ask one group for small donations, you can now craft a completely new appeal for those with the potential to make a larger annual gift. Applying a more strategic approach to fundraising will result in more donations.

Indeed, a number of nonprofits, both large and small, have used custom modeling to improve their annual fundraising results:

- Covenant House Vancouver applied the results of its custom model to significantly improve the results from its annual fund appeal. Equipped with a list of top prospects and reliable data on each, the charity was able to target lapsed donors with a new annual fund mailing. Whereas the charity had achieved a one-percent response rate from past direct mail campaigns, the new campaign brought the response rate up to 5.5 percent. In addition, the average gift climbed to $67 — almost double the previous average of $35.

- Beloit Memorial Hospital Foundation realized a 17% increase in donations over the previous year the first time models were used to target annual fund donors. In addition, the results showed that Beloit Memorial Hospital Foundation was attracting a different profile of giver than most healthcare organizations — more of their donors were younger men than older women. With this information in hand, the foundation was better able to target both its message and approach to suit those prospects most likely to support the hospital.

- Great Lakes Science Center used custom modeling results to narrow down their mailing list of 40,000 to a more reasonable 15,000. By better targeting their messaging and investing some of their savings in a higher quality solicitation piece, they surpassed the previous year's donations in the first seven months. They also report that trustees are more willing to participate in fundraising since the adoption of their more targeted approach.

Annual Fund Best Practices

If you are interested in improving your annual gift fundraising results, here are some best practices to get you started.

1. Implement anniversary data solicitations. Soliciting donors when they like to give builds loyalty and proves your nonprofit is paying attention. Identify those people in your database who have consistently given to you in the same month or same quarter, and appeal to them at that time. Use the other two or three mailings you send them each year to provide news, give a project update, or just say thank you.

2. Build gift clubs based on loyalty. Most gift clubs are based on donation size. Organizations from universities to operas have gift clubs based on $10,000, $1,000, or even $100 donors. Missing from this approach, however, is recognition of donor loyalty. Since consistent low-end annual-gift donors are your best planned gift prospects, it is important to reward that loyalty early and often. Consider creating a gift club for loyal donors — regardless of whether they give $250 or $25 a year.

3. Test your appeal. The best way to learn what works and what does not is to test your messages. Take a subsection of your list, and try out a more targeted appeal. If it works, then expand the experiment and watch your annual fund grow.

4. Do not always ask for money. The best donor is a loyal donor, and people like to be courted. Sometimes it pays not to ask for anything. Build a strong relationship over time by sending thank-you notes, items of interest, and other news. The bottom line: Make your donors feel special.

Conclusion

A nonprofit's annual fund is a building block to fundraising success. Annual funds offer charities a great opportunity to make a good first impression and to start the process of promoting lifelong donor loyalty. Savvy appeals can help you efficiently and cost-effectively raise money while minimizing the intrusion into your donors' lives. Custom modeling can help you identify who is likely to give more versus less and which of your loyal donors are your best prospects for planned or major gifts. All of these factors are critical elements to sustaining your mission over the long haul.

About Blackbaud

Blackbaud is the leading global provider of software and services designed specifically for nonprofit organizations, enabling them to improve operational efficiency, build strong relationships, and raise more money to support their missions. Approximately 24,000 organizations — including The American Red Cross, Cancer Research UK, Earthjustice, International Fund for Animal Welfare, Lincoln Center, The Salvation Army, The Taft School, Tulsa Community Foundation, Ursinus College, the WGBH Educational Foundation, and Yale University — use one or more Blackbaud products and services for fundraising, constituent relationship management, financial management, website management, direct marketing, education administration, ticketing, business intelligence, prospect research, consulting, and analytics. Since 1981, Blackbaud's sole focus and expertise has been partnering with nonprofits and providing them the solutions they need to make a difference in their local communities and worldwide. Headquartered in the United States, Blackbaud also has operations in Australia, Canada, Hong Kong, the Netherlands, and the United Kingdom. For more information, visit www.blackbaud.com.