RFM: A Formula for Greater Direct Mail Success

By ranking the recency, frequency, and monetary returns your solicitations bring, you can increase your gifts while reducing your costs

If you think your mailing costs are high, stop and look at that slick, fat, four-color mail order catalog that just landed in your mailbox today. Catalog merchants can't afford to keep mailing to customers who don't buy. So they've come up with a simple but powerful formula for getting the most out of their mailings — a formula that can work as well for charitable fundraisers as it does for Lands End or Harry & David's.

The formula is known as "RFM." For catalog marketers, that stands for:

- **Recency**: How long has it been since this customer bought?
- **Frequency**: How often does this customer buy?
- **Monetary**: How much does this customer buy?

Substitute "donor" for customer, and "give" for "buy," and you can start putting RFM to work in your fundraising mailings.

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RFM is simple because it doesn't require complex statistical analysis or detailed demographic profiles. If you have your donors' giving histories in a spreadsheet or database, you can do an RFM analysis — although a fundraising database, such as **The Raiser's Edge®** from Blackbaud, contains tools to make the task even easier. Yet RFM is powerful because it captures three of the best indicators of a donor's interest in your cause. Who could be better than the donor whom RFM practitioners call a 5-5-5 — someone who gave recently, gives frequently, and gives a lot?

At its most basic, RFM lets you locate those interested donors and target your mailings to them, cutting your mailing costs and boosting your response rate to net a greater return. Once you've learned the method, you can expand it to tailor your appeals, to reclaim lapsed donors, or to nudge small givers up the scale. As you gain experience with RFM analysis, you can begin mixing it with more detailed analyses of donor demographics and giving patterns to gain new insights and boost their results.

Defining the Terms of RFM

Just what are "recency," "frequency," and "monetary" measures? The concepts are simple, even intuitive — but turning them into measures that you can use to produce RFM scores can be somewhat tricky.

Keep in mind that the measures you use to rank your list are not the same numbers as the 5-4-3-2-1 score that you assign to each donor. For **recency**, you'll figure out how long it's been since each donor gave, in days, weeks, or months. You then use those time-based measures to rank your list in order, from most recent to the long-lapsed. The recency score comes from that ranked list, with the 20 percent who gave most recently assigned a score of 5.

For **frequency**, the measure is number of gifts in a given period. For **monetary**, the measure is dollars. Here are some factors to consider as you prepare to rank your mailing list:

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Recency

This can be the simplest concept: Rank your donors in reverse order of the date of their latest gifts. Note that this approach works only if you mail to your entire list each time. If you mail to, for example, one-quarter of your list each month, you'll need to adjust the measure so that all donors who responded to the latest appeal are treated equally. If it's now June, everyone who responded to your February, March, April, and May mailings should get a high recency score.

Frequency

For this score, you'll need to pick a time period that covers several cycles of mailings — longer if you mail to each donor quarterly or semi-annually, shorter if you mail monthly. Over that time, calculate how many times each donor has given. The higher the ratio of gifts to mailings, the higher the frequency score. If you've acquired donors over time, you'll have to adjust for the amount of time that a donor has been on your list. A donor who's given three times in two years is far more valuable than one who's given four times in five years.

How far back should you go in calculating the frequency score? You need to strike a balance, says Alan Eager, Senior Solutions Engineer for Blackbaud, Inc. "If you just go back two years, you might miss some gold nuggets — loyal donors who lapsed," he says. "But 10 years may be too long — a lot happens to donors in 10 years." Pick your time period for analysis based on your knowledge of how often you mail and how much your list turns over.

Monetary

For this, you can look at any of three measures: the amount of a donor's latest gift, the amount of the biggest gift a donor has given over the period you're analyzing or the average of all gifts over that same period. For most direct-mail fundraising, average gift is probably the measure that best predicts future returns.

A Matter of Rankings

RFM starts with your donors' giving histories. For each of the three measures, you rank your donors in descending order, then assign donors scores, based on the quintile they are in. For example, for recency, sort your mailing list by the date of last gift, from the most recent to the long-lapsed. The 20 percent of your list who gave most recently (the top quintile) get a recency score of 5. The next 20 percent (the second quintile) are considered 4s. You continue the process until the final quintile — those who gave long ago — get a recency score of 1.

Re-rank donors by how often they give, and you can assign frequency scores, again ranking from 5 for the most frequent to 1. Repeat the process using the amount each donor gives as your criterion. (For suggestions on how to calculate recency, frequency, and monetary measures, see sidebar.)

Now each donor has a three-part RFM score that describes his or her giving pattern. A 5-1-3 gave a moderate gift recently but hasn't given often. A 1-1-5 gave a large gift a long time ago. A 3-5-1 gives small gifts frequently. A donor who's average in every way? A 3-3-3, of course.

RFM sorts your donors into 125 segments (5 x 5 x 5 = 125) — and allows you to target your mailings to the most productive cells.

For example, imagine you have 1 million names in your mailing list and a variable mailing cost of 50 cents per piece. You typically get a respectable 1.6 percent response rate and a $32 average gift. So each time you mail, you spend $500,000 and bring in $512,000, for net revenue of $12,000.

You rank your list for recency, frequency, and monetary measures. Instead of mailing to all 125 segments, you pick 31 top segments (the 27 segments with all their scores at 3 or higher, say, plus a few other promising cells, such as 5-4-2 or 2-5-5). You mail to the 234,300 names in those cells, at the same cost per piece (50 cents), getting back the same average gift ($32). But your response rate among these higher-quality donors jumps to 2.7 percent. Your appeal brings in just $202,435 — but your mailing costs plummet to $117,150. As a result, your net revenue — $85,285 — is seven times the return of the larger mailing.

Can you put RFM's response-boosting power to work for you? Charities with as few as 5,000 prospects have applied the method, but RFM's value increases as your mailing list grows and your knowledge of individual donors shrinks. More important than list size is how frequently you mail: The more often you solicit, the more predictive value you'll find in the recency and frequency measures. (If you're constantly acquiring new lists, you'll need to complete at least two or three mailings to the new names to gain that history.)

But the key component to successful RFM is good record-keeping. Without solid data on when and how much your donors give, you won't have the giving history needed to make the method work. A specialized database like **The Raiser's Edge®** keeps those records for you and contains tools to speed your RFM analysis along.

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Harnessing the Power

The insights that RFM offers into your donor base can be used in many ways. Take the all-too-common problems of LYBUNTs or SYBUNTs — donors who gave "last year but unfortunately not this" year or "some years ago but unfortunately not this." RFM not only lets you quickly isolate the donors who haven't given recently — the ones with low recency scores — but also tells you which of those have the most potential. You can target your lapsed-donor efforts on the 1-4-5s (high-value donors who used to give frequently) rather than the 1-2-1s.

Similarly, you can target loyal but low-dollar donors — 4-4-2s, for example — to try to increase their average gifts.

One of RFM's big strengths is that it doesn't require detailed demographic or psychographic data. Based on nothing more than your experience with your donors' actual response, RFM allows you to you create your own knowledge base without having to buy data from pollsters or market researchers.

You can use it to leverage other data as well. If you keep track of how your donors pay, you might find that your most frequent donors use credit cards. By promoting the credit-card option, you might turn some 4-2-3s into 4-5-3s. When you test new appeals, be sure to draw the sample to whom you mail from a range of RFM segments so you can see whether the new approach has a bigger impact on 3-3-1s, say, than on 3-3-5s.

If you do have access to polling or demographic data, RFM can multiply the value of the insights they give. Take your 5-5-5s and look at their demographics: age, marital status, income, ZIP code, and so forth. Compare their profiles against those of your 3-3-3s and you'll see where you need to direct your new efforts. If you keep track of how you obtain donors' names — coding each donor for the list or lists that he or she is on — you can see which sources provide donors with the best scores for frequency or larger gifts. The next time you're shopping for a new list, those RFM results should guide you.

Calculating RFM scores isn't a one-time exercise. After each round of mailings, take a fresh look at how your donors' response is changing. Frequent monitoring is especially vital as you increase your use of RFM because the more you target your high-return donors, the more you risk donor fatigue. "Over-asking is always a danger," says Eager. "But if you don't track your results, you won't know if you're doing it." Sometimes it seems like you need a Ph.D. in statistics — or psychology — to better understand your donor base and tune up your mailings. But RFM shows that even simple methods can boost your returns. Tap into these three measures of donor behavior — recency, frequency, and monetary — and put their increasingly rich insights to work to improve your fundraising results.

about Blackbaud

Blackbaud is the leading global provider of software and related services designed specifically for nonprofit organizations. More than 12,500 organizations use Blackbaud products and consulting services for fundraising, financial management, business intelligence and school administration. Blackbaud's solutions include **The Raiser's Edge®, The Financial Edge™, The Education Edge™, The Information Edge™, WealthPoint™** and **ProspectPoint™**, as well as a wide range of consulting and educational services. Founded in 1981, Blackbaud is headquartered in Charleston, South Carolina, and has operations in Toronto, Ontario, Glasgow, Scotland, and Sydney, Australia.

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