

WHY HALF OF YOUR DONORS ARE DISAPPEARING

AND HOW SMARTER STEWARDSHIP CAN IMPROVE RETENTION



Donor Stewardship

The Problem

Donor retention continues to be a major challenge for nonprofits. Since 2005, average retention rates have been consistently weak — hovering around 50 percent. And since 2014, existing donor retention has stayed between 35 and 37 percent, while recapture rates for lapsed donors have fallen by nearly 41 percent¹.

As a result, nonprofit donor files are shrinking because organizations are not acquiring new donors or reactivating lapsed donors at the same rate they are losing them. As nonprofits try to offset this donor loss, they're forced to invest more heavily in these program areas to maintain file stability and future revenue. And depending on the donor segment that is struggling most with retention (lower-value donors versus mid-level to high-value donors), it can impact revenue differently.

How Did We Get Here?

Most fundraisers agree that declines in donor retention can be attributed to a variety of factors:

- 1. Economics.** Mailings are more expensive due to the rising cost of materials, labor and postage. Nonprofits are forced to make decisions about which donor segments to include in an appeal and which segments to drop.
- 2. Changes in focus and strategy.** As it becomes more and more difficult to acquire donors, nonprofits are shifting their priorities to focus on higher value programs, like sustainers and mid-level giving.
- 3. Changes in giving attitudes and behaviors.** The ubiquity of technology and media makes donors more connected and informed than ever. This has led many to be more selective and skeptical about the organizations they support.
- 4. More competition in the mailbox.** Donors are being inundated with more and more fundraising appeals, making it increasingly challenging for a nonprofit to stand out in the mailbox.
- 5. Nonprofits want different results, but they're not taking a different approach.** Year after year, appeal after appeal, nonprofits spend most of their time and energies on mailing the strongest fundraising package to generate the highest response rate and average gift. Obviously, this is not working as year after year, and appeal after appeal, nonprofits are still left with falling retention rates and budget shortfalls.



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36%
Average YTD retention rate for existing donors between 2014 – 2018

Yes, it remains vitally important to mail the best appeal possible. But how much does the color of a return envelope move the needle in the grand scheme of fundraising? Ultimately, this is unrelated to what truly inspires a donor to give.

It's time for nonprofits to take a good, hard look in the mirror and ask themselves if they really know their donors and understand what motivates them.

Nonprofits are either failing to recognize the changing needs and expectations of their donors, or they're turning a blind eye to them. They should be shifting their focus and making a dedicated effort to understand these needs and expectations. Then, they must take the time to develop and implement a solution that meets them.

6. Pressure to meet annual budgets extinguishes the ability to invest in the future. Fundraising programs continue to succumb to the pressures of leadership, who force unrealistic revenue goals while they cut resources. Nonprofits persist in sacrificing investment in their future for some small, short-term gains. This strategy is not sustainable and will eventually lead to the implosion of the program. It's time to push back and educate leadership as to why this narrow approach to fundraising must stop immediately.

In recent years, we've seen that this myopic approach to fundraising does not work; it treats the symptoms, but not the problem. Nonprofits need to manage and plan beyond a fiscal year and invest in the future of their organization — their donors.

In an economy where nonprofits are expected to do more with less, and fundraising costs are climbing each year, it can be difficult to justify allocating resources to a cultivation or stewardship effort that does not generate immediate revenue. But this is imperative for the long-term viability of the organization. Now more than ever, nonprofits must make changes and improvements to their current strategies. And more importantly, they need to develop and invest in new strategies.

These factors will persist, and they'll continue to be used to justify why performance is down. Nonprofits and fundraisers alike have accepted the status quo. They've accepted the current fundraising environment as the norm, and difficult conversations are avoided to not ruffle feathers.

The industry can no longer afford to accept things for what they are; long gone are the days of resting on your laurels. It's time for nonprofits to roll up their sleeves and get to work tackling the more difficult challenges right in front of them. As an industry, we are teetering on the precipice of a massive change, for better or worse. To ensure survival, there needs to be a paradigm shift in thinking and focus. Nonprofits must demand and drive change if they want to successfully navigate a new direction of their program.

“Strategically nurturing each connection builds stronger bonds that are proven to drive retention and lifetime value.”

Inertia has taken over. To break the cycle of declining year-over-year retention rates, nonprofits need a solution that focuses on building relationships with donors to improve not only retention, but also lifetime value.

How to Break the Cycle?

- 1. Admit that there is a problem.** Many nonprofits are in denial that their current tactics and strategies are not working. It's time to admit when your fundraising program has hit a low point and accept that you need a dramatic shift in thinking and strategy to improve retention. It's time to stop over-investing in short-term initiatives that only slap a Band-Aid on a gaping wound, and start investing in long-term donor initiatives that will, in time, stop the hemorrhaging for good.
- 2. Map out your current donor response process.** Seeing is believing. Most nonprofits believe they have covered their bases for donor acknowledgement, but few truly know the experience that's delivered to a donor once the donor's response comes through the door. To understand this experience, map out your current response process.

Work with your donor care team to map the path that every donor response follows, whether it's an incoming donation, comment or other response type. If you're uncertain of a process, reach out to your vendor partners to fill in the blanks. By doing this, it will become clear where the gaps and opportunities exist for nonprofits to better and further engage with donors.

- 3. Develop a stewardship strategy.** Every nonprofit is different. To be successful, a stewardship plan must be developed to fit the needs and nuances of that fundraising program. Examine the communication flow in your current process and identify stewardship or cultivation opportunities to better engage with your donors. A thoughtful stewardship plan will help build stronger donor affinity, which is proven to increase donor retention and lifetime value. These efforts should span all communication channels, and include efforts like:

- **An outbound thank-you call or a personalized message on an acknowledgement.** Prompt outbound thank-you calls allow nonprofits to thank a donor for their support more quickly than a mailed acknowledgement. Adding a personalized message — written by hand or autopen — also conveys an elevated level of care and gratitude towards a donor. Both have been shown to increase future giving and lifetime value.
- **Considerate follow-up communication.** This can include confirming with a donor that their contact information has been updated or a specific request has been fulfilled. In addition, these outbound communications are an opportunity to share organizational updates or accomplishments — showing a donor the impact their support

4%
Increase in
6-month donor
value resulting
from pre-mailing
outreach

makes. This type of engagement with a donor not only provides them transparency, it makes them feel good and helps to build their loyalty.

- **Proactive donor outreach.** Reach out to donors before an important appeal lands in their mailbox. This can be as simple as a phone call thanking them for their ongoing support, so when that appeal arrives, the donor's most recent impression of the organization was a positive one. Testing has shown these stewardship efforts to raise initial response rates and average gift amounts. But most notably, it has shown them to increase in six-month donor value by 4 percent².

4. Implement a repeatable solution to stay engaged with donors.

Now that a stewardship plan has been created, it's time to put that plan into action. Working with your donation processor and internal donor care team, seamlessly integrate these additional engagement efforts into your existing response process. Leveraging the right technology and systems will enable your nonprofit to accomplish this without slowing or disrupting the current process. Your donation processor should help you identify automation opportunities for data and other work flows to ensure that your stewardship strategy runs like a well-oiled machine.

Admission, understanding, planning and execution are the keys to breaking the cycle of declining year-over-year donor retention. It's time for nonprofits to take ownership of past decisions and take action to change the trajectory of their fundraising program. By shifting focus to donor stewardship and cultivation, nonprofits will build strong and purposeful relationships with their donors. In time, they will see an increase in their donor retention and overall donor value.

About Merkle RMG

Merkle Response Management Group (RMG) is a processing, data and technology-driven company. By combining best-in-class direct response processing, customer care, and fulfillment solutions with actionable data insights, Merkle RMG drives one-to-one relationships for an improved donor and customer experience that increases retention and revenue.

Interested in learning how Merkle RMG can help increase your donor retention and donor value?

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Sources:

1. Fundraising Effectiveness Project, Q2 Fundraising Report, 2018
2. Merkle RMG 2018 client performance data