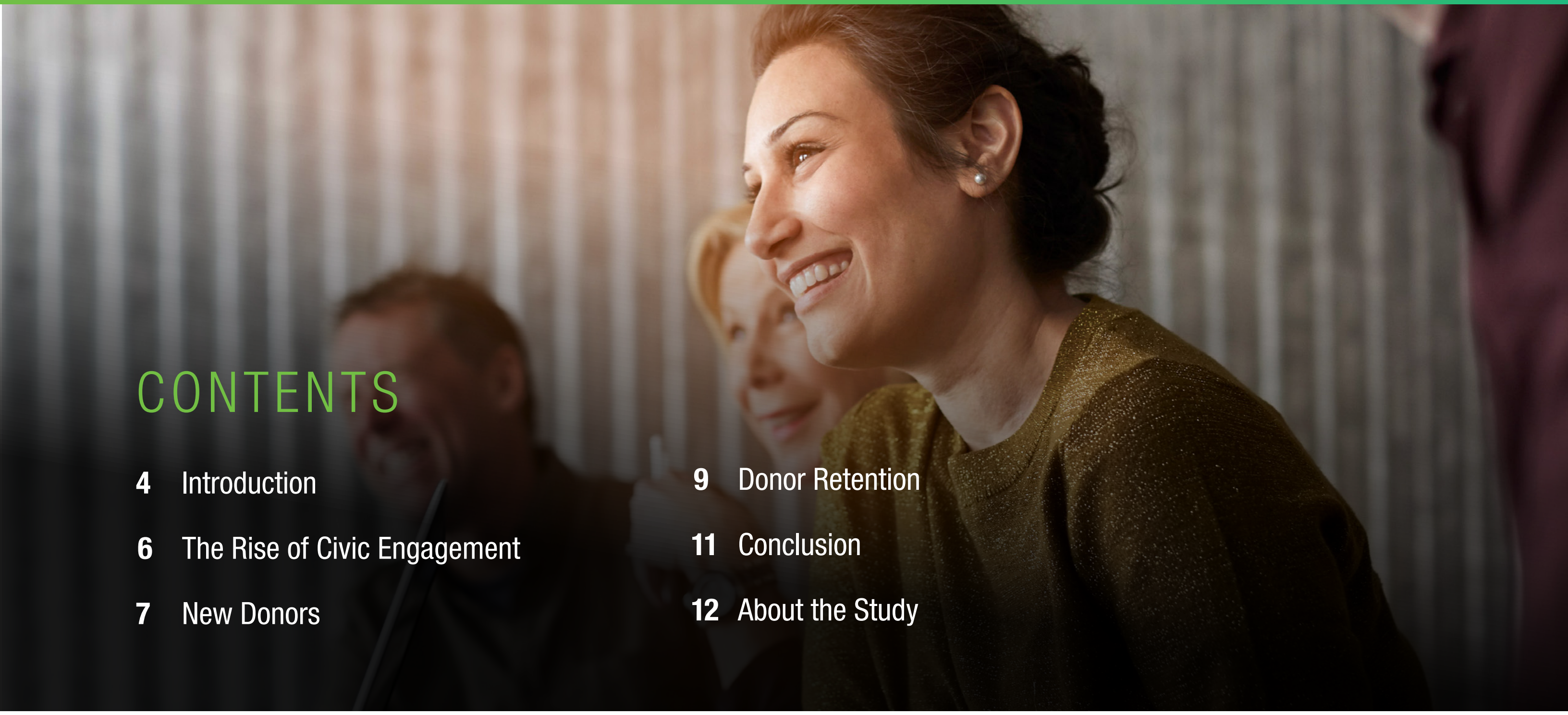
Vital Signs

Part 2 | The Undeveloped Value of New Donors

BLACKBAUD INSTITUTE | FOR PHILANTHROPIC IMPACT



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FOREWORD

The donor marketplace is changing in dramatic ways. Part 1 of the Blackbaud Institutes' *Vital Signs* report showed a sector that has both rebounded from and struggled with the immense technological, economic, and demographic disruption that has shaped the world since the Great Recession. The report indicated that the number of donor households making gifts between 2010 and 2015 dropped, the incidence of donor households adding new organizations to their portfolios declined, and overall donor retention did not improve. Overall, it highlighted how donors are so much more valuable to nonprofit organizations than the organizations are to donors. For fundraisers, this means we have strategic problems.

Now, in *Vital Signs Part 2*, these trends are revisited to provide deeper insight into the ways fundraisers can be more successful in this evolving donor landscape. It should come as no surprise to any fundraiser that donor retention is key in all of this, but this newest report doesn't just give us new figures and data—it also provides ideas, steps, and perspective on how to address and increase our retention figures. Understanding the changing market forces that affect our ability to have an impact is key, and I am grateful to see research that allows our members to better understand—and more importantly, *respond*—to the trends shaping our sector.

At the Association of Fundraising Professionals, we are focused on ensuring that our members have the resources to move the philanthropic needle and help donors change the world. This latest Blackbaud Institute report is one such important resource, helping you understand the current giving landscape and providing fundraising strategy and tactics that will work today instead of using what worked yesterday.

Mike Geiger, MBA, CPA
President and CEO,
Association of Fundraising Professionals (AFP)

INTRODUCTION

It's no secret that the past decade has been a challenging one for the nonprofit sector. The Great Recession forced the sector to reckon with two troubling trends: the shrinking middle class and the declining support of religion, a bellwether of American charity for generations. And as the years have gone on, more factors have compounded the challenges. There has been a steady decline in the number of American households contributing to charity, and 2017 saw the passage of a new tax code that could further impact philanthropy.

In our study *Vital Signs Part 1*, published last fall, we looked at giving between 2010 and 2015 and showed how these challenges impacted the work of fundraisers. Key findings included:

- The number of households donating had declined by 7% over this period
- Despite the decline, the value of their giving increased 41.5% (29.6% if inflation is taken into account)
- The percentage of revenue coming from gifts of $1,000 or more increased from 38% of all donors in 2010 to 49% in 2015
- Across all sectors, there has been little improvement in donor retention over this period

We understand if you feel down after reading these findings! But, even in the midst of these challenges, *Part 1* of this series showed there is reason for hope. Though fewer households are giving, the value of their giving has increased at a rate better than the rate of inflation. And while 2017 was an immensely challenging year, it also brought an incredible renewal of social and political engagement as people raised their voices for the causes that mean the most to them.

> *Though fewer households are giving, the value of their giving has increased at a rate better than the rate of inflation.*

So, where do we go from here? The next step seems obvious: If there are fewer donors overall and the ones who are still giving are more valuable than ever, we need to double down on our efforts to retain donors. This is especially important for first-time donors. But as retention rates clearly show, how we retain these donors is not immediately obvious.

In *Vital Signs Part 2,* we set out to better understand and expand upon our initial findings to learn more about donor behavior and uncover specific retention strategies that map to the current giving landscape. In this report, we focus on three key questions:

- How did the rise of civic engagement in 2017 affect the negative trends uncovered in *Vital Signs Part 1*?
- What happens when a donor household adds one or more organizations to its giving portfolio? Does the household continue to support its regular charities?
- What do organizations do to not only *acquire* new donors but *retain* them more effectively?

The Rise of Civic Engagement

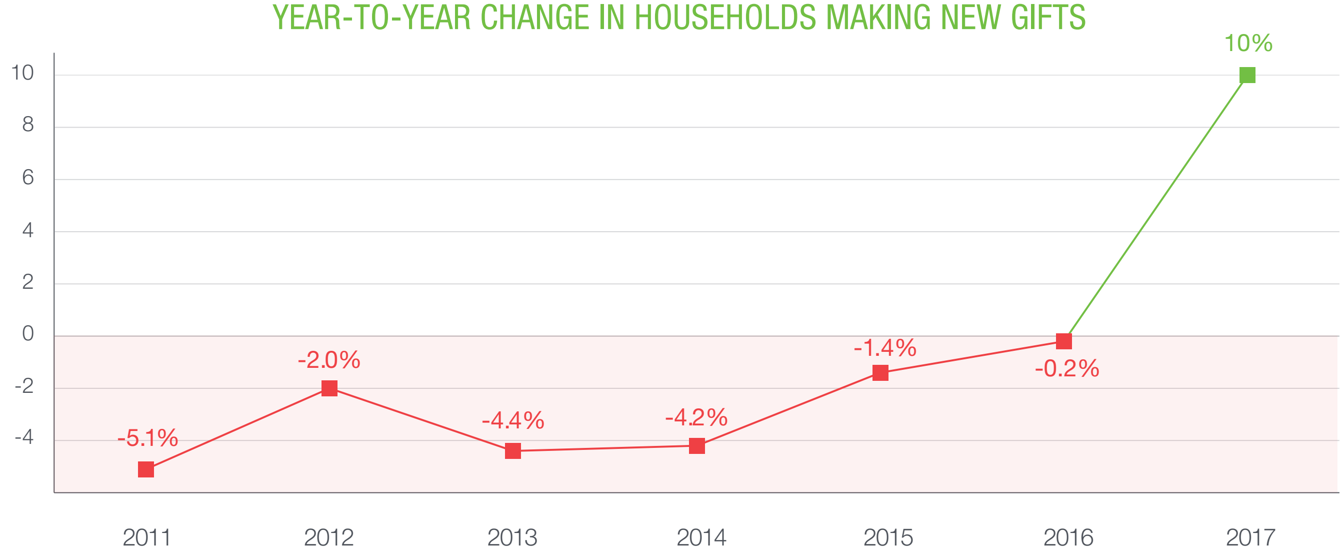
Since the beginning of time, giving has always been influenced by two factors: financial capacity and disposition to give. When larger circumstances influence those factors, fundraising often feels the effects. Natural disasters, for example, have almost always prompted a noteworthy charitable response. In 2017, we saw an extraordinary multitude of circumstances motivating Americans to engage socially and politically. Beginning in late 2016 and gaining massive energy in 2017, civic involvement was charged by political and social energy.

History—specifically the 1970s and 80s—shows us that while these kinds of social and political movements do not directly benefit all sectors, expanding the population of donors inevitably benefits all charity. Advocacy organizations and those most directly affected by the movements see increased support first and often dramatically.

Expanding our analysis through 2017, we saw the decline in new donor households appeared to stabilize in 2016, and in 2017, the number of households adding organizations to their giving portfolio increased for the first time since 2010.

As expected, that improvement was not uniformly distributed across the nonprofit sector. Some sub-sectors, such as advocacy, are up, some are down, and a few are flat. Nonetheless, this potential reversal of trends that have stood since the Great Recession is huge news for a sector that faces so many challenges. This finding shows that organizations would be wise to encourage and harness the passion of their supporters in these unprecedented times.

YEAR-TO-YEAR CHANGE IN HOUSEHOLDS MAKING NEW GIFTS



> “The threat to Planned Parenthood’s mission and to the people we serve led to an unprecedented show of support, with hundreds of thousands of individuals taking action to protect access to care—from giving money to contacting their legislators to organizing friend-raising events that build public awareness and raise funds.”
>
> **—Jennie Thompson**, Managing Director, Development, Planned Parenthood Federation of America®

New Donors

The data on first-time gifts confirms the experiences of most nonprofit organizations in recent years. The Great Recession had an obvious negative impact, and acquiring new donors for most organizations has been getting more expensive and less fruitful. Fundraisers who have found success amid these challenges have generally done so by focusing on retention. In other words, while numbers of new donors have declined, successful fundraisers have seen the proportion of retained donors in their donor base increase.

So, we asked:

- *Why is it so difficult to retain new donors?*
- *For those households adding organizations to their giving portfolios, are they decreasing support of the organizations they had already been supporting? In other words: Is giving a "fixed pie"?*

> *General practices in new donor retention often unwittingly discount the value of experienced donors giving new gifts.*

Why is it so difficult to retain new donors?

We sought to shed light on what happens when an active donor household adds one or more organizations to the portfolio of those it has been supporting, setting aside the distinct minority of donors making their first-ever gifts to charity. Despite the recent stabilization mentioned in the first section, the number of donor households giving for the first time to an organization declined 16.1% from 2010 through 2016.

In fact, we found that those who add organizations to their giving portfolios are extraordinarily valuable donors, and fundraisers are missing out on much of these donors' value because they are simply not retaining them! New donors disproportionately come from the pool of supporters who are already donating to other organizations. Our data shows that not only do they give to twice as many nonprofits, but they also give twice as much per year when compared to donors who did not make a new gift. They also have higher retention rates—typically ten percentage points higher—at the other organizations they support.

However, despite these strong donor characteristics, we found that retention was poor. General practices in new donor retention often unwittingly discount the value of experienced donors giving new gifts. The irony in this observation is the long-held and demonstrated conventional wisdom that the best prospects for new donor solicitation are experienced donors. But the cost of failing to retain new donors is substantial.

This report has underscored how much more valuable new donors are to organizations than the organizations are to donors. In fact, because they are so neglected, gaining one new donor cannot make up for the loss of an existing donor.

With the notable exception of those that have built substantial sustaining (monthly) donor bases, we project that organizations across the sector need three or four new donors for every one multi-year donor they lose. The math is simple: You cannot replace a $100 multi-year donor from a donor class that renews at 70% with a new donor giving $50 who only has a 30% chance of being retained next year.

Are households that are adding organizations to their giving portfolios decreasing support of the organizations they had already been supporting?

To answer this question, we looked at donors who made new gifts and then tracked their prior giving to any of the more than 1,000 national and local organizations in our sample for the two years after they made the new gift. What we found was surprising. Donors who make new gifts typically continue to support their current nonprofits with a revenue retention rate between 80% and 90%. Donors who do not make new gifts typically have annual revenue retention in the 70–80% range. And when the new support is added to the continuing support, the household's total giving was almost always greater than their prior year support, even when gifts were made within the same sector that they were already supporting.

We can't say from this data whether households that make new gifts would have given even more to their current portfolio of nonprofits if they hadn't made the new gift, but this data does show that households that make new gifts are willing to expand their philanthropy to accommodate new organizations—giving is not a "fixed pie."

The value potential of new donors coming from active donor households is further underscored by the fact that an increasing number of these donors are making bigger gifts. While the number of households giving any new gifts declined by 16.1% and those giving new gifts less than $1,000 to organizations declined 8.2% from 2010 to 2016, those giving new gifts of $1,000 or more increased 27.4%. Furthermore, the percent of new gift revenue coming from donors making gifts of $1,000 or more increased from 21% in 2010 to 29% in 2016. Combined, these factors likely mean that many new donors have a higher expectation for strong stewardship to maintain their support.

A small number of donors are establishing private foundations with substantial endowments. But beyond those, there is an expanding role being played by donors of four-, five-, and six-figure gifts and commitments of monthly support exceeding annual support of $1,000. Together, these elite donors have played the leading role in countering the overall decline in donors.

Some of this giving may be coming through grants from donor-advised funds, which might be considered the newest form of planned giving. As donor-advised funds attract gifts of appreciated stock and proceeds from initial public offerings along with other sorts of windfall income, they encourage and enable extraordinary grants.

Characterizing these extraordinary gifts as investments is appropriate. Studies covered by the trade and general news press are consistently reporting disposition of donors toward their philanthropy as investing in the nonprofit organizations whose missions they support.

Donor Retention

With all the factors affecting philanthropy, fundraisers play a more important role than ever in guiding their organizations and causes through turbulent waters. Just as data through 2016 showed the ways in which we were on or off course as we headed into 2017, data can also show us how to adjust strategies to minimize the disruptions and maximize the opportunities of those crosscurrents.

As we found in *Vital Signs Part 1*, most giving comes from a relatively small number of donors—83% of revenue comes from only 20% of all donors. Donors who support multiple organizations are likely to be the most valuable, so it is worth ensuring that they get the special care they deserve and require to keep giving. So, what can you do to guarantee happy donors for years to come?

Start by getting to know your new donors. No one has to give to charity; all giving is voluntary. Yet nonprofit organizations spend fractions—if they spend anything at all—getting to know who their donors are and what they think. To begin, get to know the donor marketplace in which you are operating as it is defined geographically. Regularly connect staff and volunteers who are engaging with your major donors to learn what they hear from new donors. And finally, make donor research a non-discretionary fixture of the annual fundraising, marketing plans, and budgets.

Note too that research does not need to feel out of reach. Many have effectively sought collaboration with non-competing organizations in their sector to achieve scaled economy in research and to share perspectives on findings.

> “With the guidance of a generous and insightful foundation, we survey patrons and donors regularly. We home in on how new and retained patrons and donors feel about the organization and our programs to identify opportunities to build new and strengthening long-term relationships.”
>
> —**Leslie Marks**, Development Director, Oakland Symphony

How to Identify and Cultivate New Donors

The disparity between new donors and their value to the organizations they continue to support is stark. And, while the below tactics largely apply to the cultivation of all donors, those making their first gifts command special attention.

1 Double down on stewardship of new donors.

Because donors supporting other organizations are more likely to add organizations to their giving portfolios, focus on the following categories of new donors:

- Those who have initiated contact with your organization for any reason
- Those who respond to engagement opportunities, such as filling out a survey or providing feedback on a thank-you call
- Those who give gifts greater than the ask amount
- Those who are monthly and mid-level donors

"AARP Foundation has refined its segmentation model to deliver more meaningful communications based on what donors do. Recognizing a donor's interest and passion through unique triggers gives greater insight into the relationship the donor wants with you, so we can act or respond accordingly."

—**David Whitehead**, Senior Vice President and Chief Development Officer, AARP Foundation®

2 Refine reinstatement practices of lapsed new donors.

Their immense value may be just out of your grasp, but lapsed donors should not be written off as a lost cause. Try the following:

- Research new lapsed donors to tailor reinstatement for those most closely matching retained donors
- Explore reasons for new donor lapsing that can be effectively countered
- Treat lapsed new donors as inactive rather than lapsed
- Celebrate their return to your donor community

3 Look for greater value and opportunity in new donor acquisition practices.

It is difficult enough to get donors to make an initial gift. Getting new donors who will continue to support an organization not only leads to countering donor base attrition and growth, it safeguards a far better return on investment in new donor prospecting. Explore these ideas:

- Acquisition success should be measured not just on the initial gift but on whether new donors give a second or third gift
- Explore and test for efficiency overlays list brokers offer for refining selects to match retained donor profile

"For a very long time it has been convention to simply accept the initial calculation of cost to acquire a donor (i.e., net loss) as a standing metric in fundraising. Adopting, instead, a calculation of acceptable five-year return-on-investment per donor encourages not only smarter investing but greater care in finding better donors. For example, we have found that some sources with a higher cost per donor nevertheless have a better five-year ROI than sources with a lower cost per donor."

—**Jeff Regen**, Vice President, Membership and Marketing and Development Services, WETA®

4 Recognize and counteract new challenges to donor engagement.

- Beware the dozens of new media intermediaries attempting to monetize Internet and social media giving at the expense of organizations losing the opportunity to engage with the donors whose transactions they process and monetize
- Make special effort to engage donors giving through donor-advised funds, the new and expanding form of planned giving

"While intermediaries offer an opportunity to increase funds and welcome new donors, nonprofit organizations must carefully manage the complexities of this new dynamic. Organizations must still act as the voices of their missions and work to engage these new donors directly with their cause. They can work with the intermediaries to set up guidelines to facilitate these aims."

—**Chris Dann**, Director, Fundraising Research Program, Blackbaud

CONCLUSION

This might feel overwhelming, but remember that this information is positive for your organization!

While the number of households giving has declined, the value of their giving has increased at a better rate than inflation. And our most recent data shows that this decline may have stopped and could even be reversing.

Experienced donors making gifts to new organizations represent a wealth of untapped value. More and more of these donors are making major gifts to the new organizations they're supporting. And most of those adding organizations to their giving portfolio not only continue supporting their existing organizations, but give them even more.

We've seen how greater social and political trends can affect our donor bases, with donor trends mirroring the economy. As we look ahead to an even more uncertain landscape, there has never been a better time to double down on stewardship, embrace our donors, and focus on acquisition. We'll continue to be here by your side, measuring what matters.

Explanation of Revenue Retention

Retained revenue is the revenue from donors retained from one year to another. Consider the following example.

An organization received $100,000 from 1,000 new donors in 2016. The following year only 350 donated again, but they contributed a total of $50,000. A common metric of retention is donor retention, which in the example above would be 35% (350 donors in 2017 divided by 1,000 donors in 2016).

However, a more meaningful metric that incorporates the gift amounts is revenue retention. To calculate revenue retention, we divided the revenue received in 2017 from the original 1,000 donors by the revenue we received from them in 2016. In this case, the revenue retention would be 50% ($50,000 divided by $100,000).

Revenue retention is a valuable metric, because nonprofits care not only about the number of supporters but also their contributions.

About the Study

Our data set includes 1,042 nonprofit organizations representing contributions of $16.4 billion in 2015. For our analysis of 2016, the number of organizations in our data set dropped slightly to 861 nonprofits representing $13.4 billion in 2016. Our analysis of 2017 data was more severely limited to 180 nonprofit organizations representing contributions of $4.7 billion in 2017 due to the timing of this report.

For this analysis, we excluded donations from corporations and foundations and focused only on contributions from households. In addition, we looked at only revenue received—soft credits and pledges were excluded. Contributions from all sources (e.g. annual giving, major and planned giving, events, capital campaigns, memorials and honorariums, canvassing, sustainers, online, and in kind) were included.

There were 753 local nonprofits (defined as having more than 50% of giving coming from local households) and 289 national nonprofits. Of the total 1,042 organizations, 209 had annual revenue less than $1 million, 587 had annual revenue between $1 million and $10 million, and 246 had annual revenue of $10 million or more.

The data set represented the following nonprofit sectors: advocacy (33 organizations), animal welfare and environment (85), arts and culture (114), K–12 and higher education (232), faith-focused (52), health and hospitals (119), medical research (29), human services (239), and international (41).

This report would not have been possible without the generous input of Jennie Thompson, Leslie Marks, David Whitehead, Jeff Regen, Chris Dann, Ashley Thompson, and Erin Duff.

About the Blackbaud Institute for Philanthropic Impact

The Blackbaud Institute drives research and insight to accelerate the impact of the social good community. It convenes expert partners from across the philanthropic sector to foster diverse perspectives, collective thinking, and collaborative solutions to the world's greatest challenges. Using the most comprehensive data set in the social good community, the Blackbaud Institute and its partners conduct research, uncover strategic insight, and share results broadly, all in order to drive effective philanthropy at every stage, from fundraising to outcomes. Knowledge is powering the future of social good, and the Blackbaud Institute is an engine of that progress. Learn more, sign up for our newsletter, and check out our latest resources at www.blackbaudinstitute.com.

About Blackbaud

Blackbaud (NASDAQ: BLKB) is the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, foundations, corporations, education institutions, and individual change agents—Blackbaud connects and empowers organizations to increase their impact through software, services, expertise, and data intelligence. The Blackbaud portfolio is tailored to the unique needs of vertical markets, with solutions for fundraising and relationship management, digital marketing, advocacy, accounting, payments, analytics, school management, grant management, corporate social responsibility, and volunteerism. Serving the industry for more than three decades, 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.

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