

Nonprofit 911 – January 13, 2009
When the Ax-man Cometh: What to Cut, What NOT to Cut in
Your Fundraising/Marketing Budget
with Jeff Brooks
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Rebecca Ruby Higman: I'm thrilled to introduce our presenter, Jeff Brooks. Jeff is the creative director at Merkle, a full-service direct-response agency that exclusively serves nonprofit organizations in North America and Europe by helping them raise more money. Jeff is also the author of the Donor Power Blog, and he's worked as a writer and creative director on behalf of many of the world's leading nonprofits, including CARE, American Cancer Society, World Vision, America's Second Harvest, and many others.

He has planned and executed hundreds of campaigns in direct mail, print, radio, the Internet, and other media that have motivated donors to give millions of dollars. He believes that nearly everyone is just waiting to give money to deserving causes, they just need the right nudge.

So, without further ado, here is Jeff Brooks.

Jeff Brooks: Thank you, Rebecca. And happy New Year, everyone. It's been a tough year for a lot of us. And as much as we hate to say it, we as fundraising people probably face cuts. You can't hold it off forever. And so what I want to go through today is what you can cut, and what you must not cut. And then we'll talk a little bit about the compromise in between, whenever you don't make cuts but you save money. And then finally I'll talk a little bit about how do you innovate when things are like this. You have an outline you could follow with and take notes on, if you'd prefer.

Now, the first category is things you'd be crazy to cut. And I've got a couple of things here. The first one might be obvious, and that is net-positive donor-cultivation programs. Anything you're doing that's gaining net revenue means, if you cut it, you're cutting revenue.

I know that sounds really, really obvious. That's like Business 101. But a lot of nonprofits don't measure net, they measure gross. And so they may be thinking they're producing a lot of money, but they're actually losing money. In that case, if you're losing money, that's something that goes into the "go ahead and cut it" category. So make sure when you are cutting, that you are measuring net revenue of everything.

You also want to measure return on investment. That's the efficiency at which you raise your money. And if your return on investment is not so hot, you might consider, well, maybe this isn't worth doing, because the efficiency is not good.

In good times, you pay a lot of attention to return on investment, and you may forgo some net revenue in order to keep your efficiency good. In times like this, you kind of turn that around. You say, "You know, I'm going to be a little easier on our efficiency and take a little more return on investment in order to keep net coming in." That's one way that business rules kind of change when things are hard. And we'll come back to the concept again of looking at return on investment when we talk talking about savings.

For instance, say you have an event. It costs you a lot of money, and it brings in a lot of money. If you're looking at net and return on investment, you can say, "Well, you know, for every dollar we spent, we've brought in \$1.50." That's not so great. In a time like this, that may be acceptable. In a more flush time, you might say, "You know what? The opportunity cost of doing that, the staff time we're spending on it, could be spent in a different way."

For now, simplify it down a little bit to: are you measuring net revenue? Is a cut going to cost us revenue?

OK. Now, I'm going to move to the second thing you'd be crazy to cut. And this one's going to be a little harder for you to defend from the ax-man. And that's donor acquisition. Because donor acquisition typically, in most cases, costs you money. You lose money in order to get donors. And that's why it's easy for the ax-man to cut it, because cutting it actually means your bottom line looks better as you do it.

However, acquisition is your food. It's the organization's food. And if you don't acquire new donors, you may not suffer much immediately, but you will suffer next year and the year after that and the year after that, and for many years into the future. You will pay for that in foregone revenue.

As you can see on the handout there, I have a little thing of return on investment by when you got the donor. And that says first-year donors, one-to-one. Typically, the first year you have a new donor, you break even. In other words, whatever it cost you to get to that donor, you get about that much back. It costs you a little more at the point of getting them, and then enough of that group gives a second or third time to bring you up to about one-to-one.

So if you make that cut, it's a wash. You don't get donors. You don't get that revenue. And nobody notices. Nobody cares. Right? That's what your money people might say.

But look at the second year. Second-year donors, you typically get two dollars back for every dollar you spend. So, in your second year, that's when you start feeling the pain.

But then, in the third year, then it really sucks, because it's at a three-to-one return on investment. These numbers are very round, and yours may differ, but these are typically how they are across the industry. And, as you go to the fourth year and beyond, your return on investment skyrockets. It goes up to around 10-to-1.

So if you make cuts in acquisition now, you are basically making the decision that our recession is going to last two, three, or more years longer than THE recession. That's the decision you are making when you make that decision.

Now, if you want that, go ahead. Save the money now and then suffer next year and the year after and the year after that. We don't know how long this recession is going to last, but if you want it to end when it ends, don't cut donor acquisition.

Now, you might need the handout on this next section, because there's some numbers on it. It's going to get a little bit "mathy" here. But don't worry. I can understand it, and I'm a word guy. It's not that hard, but it would help to have a paper in front of you. So we're going to talk now about ways you can make savings within your programs. And I'm going to give you a magic number that can really help you get smart about where you spend your money -- where you don't spend it and where you do spend it. And it's a business number called net present value.

In fundraising, net present value, you get -- and you can see this on the handout -- it's the total projected lifetime giving of a donor, minus what it cost to acquire that donor, minus the ongoing costs to cultivate gifts from that donor. You come up with a number, and that number is the net present value.

Now there's another number that's not on here that you might need to know, and that's the expected lifetime giving of a donor. That's another magic number, and it's 10. OK? Very typically, the lifetime value of a donor is 10 times whatever their first gift to you is. And that's where you start your calculations.

A lot of people have this vision that we get a donor in, she gives \$25, and over the years she goes and upgrades and becomes a major donor and then uses planned gifts. That's a beautiful thing when it happens, but it's statistically insignificant. It's monetarily significant, but statistically, when you look at a donor, it's not going to happen. Look at the big picture, and of course it does happen, and it's meaningful. But this 10 times is a pretty accurate starting place.

So let's look at scenario one. Net present value scenario one. And you're going to have to write in some of these numbers here.

Scenario one, you've got a \$25 donor. That's a rather normal and average first gift, unless you're online, in which case it's low. Lifetime expected giving of a \$25 donor is \$250, right? The cost of acquiring that donor -- now I'm kind of using direct-mail kind of numbers here -- would be maybe somewhere around \$35. In other words, it cost you \$35 to get the \$25 donor.

Now, cost of acquisition you get by taking the entire cost of your donor-acquisition program and dividing it by the numbers of donors you've got, and that's where you get cost of acquisition. Then the cost of cultivation of that donor, lifetime, is about \$6 a year, to have a donor and mail them and send them receipts and stuff like that. So, \$6 a year for about 10 years, and that's \$60.

So, you take the \$250 that you're going to get, you subtract the \$95 it took to keep them and maintain them, and their net present value is \$155. Not too bad, huh? And it's roughly a five-to-one ratio after cost of acquisition. In other words, you spent \$35, and you're going to net, over time, \$155. That's pretty good for your organization. A \$25 donor, that's a good thing.

Let's go to scenario two. Now, some of you who are mathematically acute can see what's coming here. \$5 donors. Maybe some of you are doing activities where you need \$5 donors, not too many anymore. But just for the sake of argument, you do come in, you do show up. \$50 lifetime giving is expected. It costs a little less to get them. You're probably in sometimes a cheaper medium, so it's going to cost you the same amount to cultivate them: \$6 dollars a year or so, for about 10 years.

So, you take \$50, subtract \$85, the cost to acquire and cultivate them, and you have lost, long-term, \$35. Net present value, negative \$55. So that tells you right away: that wasn't so hot, was it? We spent money, and we continue to lose money, basically.

So what you do with that information is you can't chase away \$5 donors, but you can discourage it. In other words, you don't ask for those low amounts. You get them anyway, but if you don't ask for them you'll get fewer of them. And then when you do get the \$5 donor, spend less cultivating them, because it's basically good money after bad. So mail them less. Talk to them less. Find cheaper ways of communicating with them. Maybe you can bring that net present value up to zero or over.

Now, let's go to scenario three: \$100 donor. \$100 is a very typical online first gift, and it's rather atypical in direct mail. But if you can get a \$100 donor, their lifetime giving is expected to be \$1,000. The cost to acquire them is probably higher; you'd probably have to be in some more expensive playground. And typically, most people don't treat them that much differently, so it's another \$60 cultivation costs over time.

But your net present value for \$100 donor is \$890. So, very healthy. In fact, many times healthier than scenario one, which is quite acceptable.

Now when we looked at scenario two and we thought, "Huh. We've got to get that one under control by not using so many \$5 donors and spending less on them along the way." Yet these \$100 donors, maybe you ought to spend a little more on them. Find leveraged ways to get more out of them, higher-impact ways of talking to them: handwritten packages, personal phone calls, things like that that can increase donor adhesion with you and actually raise their lifetime giving and thus raise their net present value.

So, when it comes to savings, look at your donors and find ways to save money at the low end. Now you're going to have to do the math for yourself. This is sort of typical, big-picture math I showed you. Your results may vary. Look at what you have and where you're losing money in the net present value, since that's where you want to make cuts, and that's where you can make meaningful savings that aren't going to hurt the bottom line.

Finally another one -- this is recession-specific money-saving thing -- is in production. If you're doing direct mail, if you're doing printing, if you're doing any kind of broadcast media, radio or television, in these times, printers and broadcasters and other businesses have a lot of excess capacity. Their business customers are hurting and aren't spending as much. You can get better deals, typically, on printing, on mailing, and on broadcast time.

So go for it. You might want professional help on that if you don't want to be a jerk about it, but you can spend less to make more in a time like this.

OK. Let's move on to category three of things you can cut. Now this can be painful. We don't want to cut marketing at all if we can help it, but there are some things we can do where we can make cuts that is not going to damage your program that much.

The first one is, let's go back to the high investment/low return programs we talked about earlier. Hopefully you're measuring that and not just looking at growth. There could be program where you are actually losing money, but it looks good because you're raising a lot of money.

I've worked with a number of organizations that had a large event and it was their main source of income. And because they looked at the expense of it and the revenue of it in different categories -- they were like on different pages on the account sheet -- they didn't realize they're actually losing money. This event was costing their organization money.

That's the kind of thing you can cut. And it's not just a clear cut "lose money or make money." But if you are only making a little amount of money, is it worth it? And in recessionary times, again, you go a little careful on that. Don't just cut off something that's making a low return on investment just because it's low, because it may be you need that revenue.

In flush times, which will eventually return, you may say, "You know what, the \$1.50 I'm bringing in for every dollar we're spending, we can do a lot better somewhere else, so let's spend that money somewhere else."

Now I'm really going to get really controversial. If you are all fundraisers, this isn't going to make you mad but it's going to make somebody mad. And that is you need to cut unmeasurable programs. The first one is maybe within fundraising, and that might be ways of affirming donors that you can't prove helps them be better donors.

I have a lot of clients that have initiated a lot of programs for donors where they send them a card or make a phone call when they cross certain thresholds. Like say their cumulative giving in a year hits \$100. We send them a card saying, "Thanks. You're giving \$100. You're so wonderful and there are so many good things we can do with that \$100." Or on the first or fifth or tenth anniversary of their becoming a donor. Or if you know their birthday, things like that.

Now we believe these things improve your bottom line. We believe they help donors give more. But in a lot of cases we can't prove it. So things like that are cut-able at times like

this. In better times you bring them back if you can afford it, but right now it's going to be hard to spend that kind of money.

Brand advertisements and other kinds of unmeasurable marketing are a large area that you should look very closely at when you have to make cuts. Brand advertising is built around the theory that if you can get a lot of people aware of you and thinking well of you, you're going to be able to raise more funds.

Now in theory that sounds pretty good. And it's likely, to some level, true. But you can't prove it, you can't measure it. The dollars you spend on advertising, pure advertising that has no direct response vehicle with it, is money that maybe is going down a rat hole. And therefore, easy to spend.

Let me give you an example. I work with a number of Salvation Army divisions around the country, and I have been working with them for several years. Salvation Army is probably the best nonprofit brand in existence in the planet Earth. It's among the best brands, period, in terms of unaided recognition. Everybody knows who they are. Almost everybody thinks well of them. Almost everybody has had some kind of positive experience with them.

The reason for that is they've been around for a long time and they are everywhere. They are in every county in America. Chances are you or somebody has been touched by them in some positive way. You've maybe been to a thrift store, maybe they hauled a bunch of junk away for you. So, they have an unmatched brand.

Now how does that play out in their fundraising? Well, they do pretty well. But they aren't on magnitudes order better than anyone else. So when they go out in the direct mail mill like anybody else does, their response rates are a bit higher than the similar other organizations. So that's what brand buys them, it buys them a little bit. Of course, we can't measure that.

You will never, unless you're the Salvation Army, you're not going to have that kind of brand. You can't spend the money. You can't go back 150 years and exist that long. You can't have a presence five blocks away from everyone in America. So you can spend a lot of money and get nowhere, or you can be like the Salvation Army and just have the brand and I wouldn't say it takes you nowhere, but it doesn't take you all that far.

Now some people in marketing will tell you, "Oh, yes, we can measure marketing." We survey for unaided recall, or perhaps aided recall. What that means is first we do a phone survey and we ask people the question, "Name me a charity." And the ones they name are the unaided recall charities. So you say, "About 20% of the people we called named our organization unaided. We want to bring that from 20% up to 25%. And that would be really great because 5% more people will have us on the top of their minds and they will be that much more likely to give."

So you go out and you do your big marketing campaign and a year later you do the phone call again and you ask the question about the charities and hopefully 25% rather than 20% say the name of that charity when asked that question.

Now the problem is that's not real measurement. That doesn't tell you anything you can take to the bank. No money comes out of people knowing who you are. So ask yourself this, do you want to move 100 people 10% of the way towards giving or do you want to move 10 people 100% of the way towards giving? Which one is going to put more dollars in your bank account?

And in recessionary times you are going to have to pick the one that is actually going to end up with money in the bank. Now in better times you should probably still ask yourself that question. Am I spending the money well on these unmeasurable marketing programs?

And I don't have the answer to that question. You have to answer that for yourself. But a lot of the reasons people spend money on marketing is really to make themselves feel better. The brand theory is if we make a really great case for who we are, people will like us more. But the reality is, they make a great case that makes them feel better about themselves and that's very expensive a therapy. It's not worth it. And in a time when you're making cuts, it's probably not tenable.

OK, now I probably just stepped on a bunch of people's toes. I'm kind of imagining they aren't on this call. But if you want to challenge me on that, go ahead and we can talk that through. Do you have any of those?

Rebecca: We haven't gotten any responses for the particular question yet. We just had a couple of questions about some of the other points you brought up, though.

Jeff: OK, let's listen to those.

Rebecca: For instance Theresa writes in and says, "What would your guidelines be for donor recognition? Is there a cutoff of how much to give in order to get recognized?"

Jeff: Whatever the cutoff is, you may consider raising it. And if you've found a way to measure this, and you can show that the money you spent increases revenue, then don't cut it. It's just that typically the numbers of people you're dealing with are too small to test and to know in a quantitative way whether it works. We're all pretty sure that donor recognition does have returns. In fact, we've done tests where we've proven it does. But not every activity is testable. And I've worked with really large organizations and even in those cases the number of people who cross the high threshold of giving and things like that aren't big enough that you can split in half and do it with one group and not do it with the other and look at the difference. The numbers aren't statistically significant because you don't get a direct return from the activity.

So, this is kind of a gut call. You should in general be doing special donor recognition activities, but in these times you should have a higher threshold for it. I hope that answers that question.

Rebecca: Definitely seems to. Thanks so much. Another question, though, something you had said when speaking about the donor acquisitions. Barbara would like to know:

“Doesn't the Barack Obama experience disprove your disdain for \$5 donors, especially if one's cultivation is done online?”

Jeff: No. There were not a whole lot of \$5 donors for Barack Obama, and don't use Barack Obama as your yardstick. It's going to lead you astray. Maybe go out and ask how much money he's making now. He's still trying. If you're on his list, they're still sending out appeals. He's not getting much. It's just doesn't have the urgency that it has during the election. It was huge, it was record breaking, and you should learn everything you can from Barack Obama, but don't by any means say, “Well Barack did it, so I can.” That's not the way it his. He is a phenomenon. He is a the first. There were a lot of very special things going on.

And political fundraising is a rather different animal from other 501-C3 fundraising. Different audiences, sort of a different landscapes. Political fundraising goes up very high in the months going up to an election and then it drops off the table afterwards. Most of us can't operate that way. We need to raise money all the time.

Rebecca: Great. And now we do have our first challenge. We had someone wrote in who says, in regards to things about branding advertising, he says: “I disagree with Jeff's recommendation. Actually quite the opposite is true. Building a brand is something necessary to an organization throughout its entire life cycle. Remember, your brand is lasting. When people have to choose between giving, they will remember People will remember your organization and not the other. If other don't spend the funds and you do, who will they remember? You have to build a case and give them a positive experience. Also, we're in the business of serving people, not just raising funds. I look forward to Jeff's response.”

Jeff: I completely agree with what you say there. Where we may part ways is how you spend that money. Are you spending it on things you can measure? I think asking somebody for money and persuading them to give is a very powerful brand-building experience. And I think it's about 10 to 20 times more powerful than a sign that somewhere that they see or a YouTube video that a few people look at. Brand is very important. Brand is not what you say, brand is what you are. I read somewhere that brand is not the promise you make, but is the promise you keep. If we want to look at the Salvation Army as an example, they do a great job of keeping your promise on a consistent basis for generations. That's real brand.

And it's a lot more valuable than just putting a message out there and hoping people will respond. You could say, and in fact I do sometimes say, that direct response fundraising keeps strongest brand-building activity that there is.

I like to look at it from the “is it measurable or is it not measurable” viewpoint. And if you put up a sign in an airport and they say 12,000 people will walk past that sign every week, that's cool. Now tell me what that's going to do for the person who comes in and fuels our organization.

Well, the answer is you can't measure that. I'd rather take the money it costs and then spend it on a print ad somewhere that has a coupon and a 800 number and a URL that will get money in the door and a friend that we now have that we can go back to.

I don't know if that answers your question but I tried to clarify that.

Rebecca: Great. That makes a lot of sense. Why don't we go ahead and tackle the fourth section about innovation and then we can round it back around to the people who have questions from each of the other three sections we've done.

Jeff: OK. Finally, innovation is always super, super important. And very often in hard times innovation doesn't happen because everybody is afraid. Innovation is risky. It's inherently risky. Most new ideas don't work out. So making innovation is taking risks. However, you can't let these times completely cut off innovation. Maybe you need to be more careful about it, but don't let fear rule you. And that's why I put all these quotes about fear in here. FDR was talking about the earlier depression we went through. He says "We have nothing to fear is fear itself." What he meant there was everyone freaking out is going to hurt us a lot more than the condition of our economy. And it's a fact, the fear is that we have to worry about.

So don't be afraid. Fear is a mind-killer. Basically fear makes you stupid and you've maybe experienced that in your life. And I love what Warren Buffett said, which was, "Be fearful when others are greedy, and greedy when others are fearful." And two years ago when things were insanely good in the business world and in the nonprofit world. We probably should have been saying, "Yikes, this is not normal. Everybody is not behaving in a sustainable way. Look out."

And now, like Warren Buffett was saying, "Huh, maybe I should do some more donor acquisition activities because there's less stuff in the mailbox than there was months ago." Maybe you've noticed it at home, there's a lot less credit card offers in your mailbox than there used to be. That means a healthier environment for the nonprofits.

And like we said earlier, there's a lot less broadcast advertising. The whole thing is a little more relaxed and less crowded. You can get market share that isn't available to you in happier times. So it's an attitude. Vanish fear from your mind and argue from strength, not from fear.

So, I'll be happy to take any other questions now.

Rebecca: We just have a few questions from the first section where we were talking about net gains and things like that. These are some basic questions to get every up to speed if they're not as familiar with e-business terms. Susan wrote in and said, "Can you define the difference between net revenue and gross revenue for us?"

Jeff: Sure. Gross revenue is all the money that comes in. Net revenue is all the money that comes in minus that what it costs you to get that money. Net revenue is the money that goes to fund your programs. Gross revenue just tells you about how is your cash flows situation right now. And the failure to distinguish between the two is the downfall

of a lot of nonprofits, in that they have a marketing fundraising budget and then they have revenue coming in and they don't make a clear connection between the two. So they can't tell what activities are actually fueling revenue and which ones are actually dragging them down.

Rebecca: And Jane writes in and says, “How can you be sure what is a net revenue generator without taking into account all the ways that an agency's name has gotten before the public? For example, newsletters and other forms of outreach.”

Jeff: In one sense you can't, but you should be able to know with a certain amount of certainty that this letter brought in this gift. This newsletter brought in this gift. This radio spot brought in this gift. It's true that the other noise that's happening around it does affect it. And in fact I believe that it typically takes a donor 3-5 appeal letters to get them to give. It's just the nature of the mailbox. There's a lot of noise, there's a lot of similar messages, and so you have to talk to them several times before they finally go, “Yeah, I'm ready to give to that.”

However, you need to measure on the campaign level. In other words, measure everything you do and just be aware that there is a spill over effect. All of the things do have some impact on the other things. But if you don't measure and you just make the assumption that everything affects everything and therefore we don't measure it, then you don't know how to be effective. And you don't know how to not do things that don't work.

Rebecca: “When you are measuring the net revenue of the event what kind of costs should be taken into account? Should you include volunteer time, in-kind donations?” Jeralyn has written in.

Jeff: Typically, I would not measure non-monetary things as if they were monetary. Volunteer time is definitely very valuable, but it's not money. And the only reason to measure it is, are you deploying it well? So in terms of when you're looking at net, you just look at cost against revenue. And it is worth looking at the value of staff time, volunteer time, gifts-in-kind and things like that, and say, well, would there be a better way to deploy these. And that might come into the question when you're saying, “We're getting a low efficiency here. We have low return on investment at this event. We're getting \$1.10 back for every dollar we spend.” And that doesn't count the fact that we've got three full-time staff people and a hundred volunteers and all these businesses giving stuff. That might push you in favor of saying, “It's even worse than it looks,” because of these non-monetary things.

Rebecca: Debra sent a question in: “We're getting conflicting directions from our volunteers about asking for money during this economic downturn. We send only two informational, non-solicitation pieces every year, and three direct-mail appeals and three email appeals. Do we need to send more informational appeals that don't ask for money but highlight our accomplishments?”

Jeff: I basically would never send out a piece that doesn't ask for money. I've done some testing that indicates it's not helpful. We did one test where we replaced several “ask”

mailings with “non-ask” mailings that were sort of affirmative “report back” sort of mailings. The groups that got that showed lower giving across the entire test period, which was kind of counter to what the hypothesis was which was that sometimes not asking helps you when you do ask. What I would do instead is include reporting back with some of your communications. And I'm a huge fan of newsletters, both online and in the mail. They make a big, big difference in the donor getting a picture of the impact of their giving.

Newsletters, however, should have giving as part of their agenda. And in fact for a lot of organizations now, newsletters are a more effective way to raise funds than the old-fashioned appeal letter. I think there's a little shift in the marketplace going on and it's making that happen, where people want a more rounded picture before they give.

I wouldn't completely give up on informational mailings, but I would be very skeptical about them. Because obviously they don't bring in money, or they bring in very little. They don't seem to have the positive impact that they should have.

Another way to think about this is that giving is pretty much the medium of the relationship with donors. There is nothing else, for the most part. You may have volunteers who also give, you may have advocates who also give. But for the most part donors are there, they're with you in order to give. So to create some kind of other structure that's not giving is probably irrelevant for a lot of donors. That's why I might spend less on that kind of thing.

A complicated question, with probably an even more complicated answer, but it's an important thing, and you should be looking skeptically at those kind of things. By the way, if I were the questioner I would ask for more than you are asking. I think you are under-asking your file. I think you should be touching them in some way about once a month. Maybe skip a month or two during whatever your down season is. But I think you are under-using your file and not giving them the opportunities they need to support you.

Rebecca: Great. And since we're still talking about donors and how we interact with donors and what the relationship is, we have a question from John who writes in: “I have a question about motives and what motivates people to give. Do you think given the economy motives will change? If so, how? And do you have any suggestions for optimizing our marketing to respond to changes in donor motives?”

Jeff: I think in one sense nothing changes when the economy changes, but on the surface a lot of things change. The ultimate human need is to give and to be kind and do the right things to make the world a better place. That doesn't go away. In a harder economy the places we're seeing hurting are -- and this isn't consistent -- but areas that are farthest away from dealing with poverty and need are the ones most likely hurt. So arts organizations are tending to see some drops. Health organizations are going to see some drops - and there are huge exceptions to this. Domestic poverty, as a sector, is actually doing better than usual right now, and that's because what they do is more clearly needed than it has been before.

Overseas poverty is a mixed picture. Some organizations are hurting and others are doing very well. And I think the difference there is how well they do at making it relevant.

Now I've been seeing out there in the blogosphere and other places, that advice that, "Don't talk about the economy, because it's just going to remind people how scared they are and they won't give to you." I don't think that's very good advice. The economy is this elephant in the room. It's sitting here with us and if you don't mention it, you seem like you're out of it.

So I would say, I would just be honest about it. You could say, "Thank goodness the economy is not hurting our fundraising, but the need for our services is high because of the economy." You might say, "Our giving is way down, we need you now more than ever."

Most typically the areas where giving is down is from upper-end donors, wealthy people who tend to have a lot of investments as part of their earnings portfolio. The giving is way off in that sector for the most part.

Corporate giving is off. Corporations are hurting. Foundations tend to be giving less because their investment portfolios aren't doing as well. The government giving is pretty badly down because tax revenues are down. But from regular people we don't see a whole lot of change. It's a big mixed picture and depending where your revenue is coming from, you could be hurting more or less. But the best thing you can do in fundraising is be relevant. Be real. Tell the truth. Talk about what's going on.

And if the economy is part of what's going on in your world, you should talk about it. If you are hurting, if you are making half the revenue you need to do your work, you need to tell your donors that. Donors like to be wanted. They want to be wanted. And they respond to that.

Rebecca: Great. I did want to hop right back -- just for a moment - back to the branding. We have been getting a slew of questions in about branding and concerns about spending money on it. This one sums it up pretty well. Anne Marie writes in and says, "Do you have any suggestions for a positive and cost-effective branding strategy in these times?"

Jeff: Direct response fund raising. I believe that is the best branding there is. It gets you people in the door with a gift. That's a person you know you have influenced and who is on board with you. I would move my money from unmeasurable branding into direct response fundraising. That's what I would do almost across the board. The only thing that I might keep in the more unmeasurable branding area would be public and media relations, because that's where you can have some positive impacts on low costs for them. We know what people are perceiving about you. I would not be doing non-responsive advertising of any kind in times like these.

Rebecca: That makes sense. And we have actually gotten a couple of questions about differentiating between brand advertising and just doing general advertising, particularly for events. For instance, Allison writes in and says, "How do you differentiate between brand advertising and general advertising? For example, we all use advertising to sell

ticket for concerts. Would that fall into general advertising or under brand? I would think brand advertising would be part of general advertising for the event.”

Jeff: There's not a clean line between the two. And in my mind general and brand kind of mean the same thing. I put a brand and general on one side and direct response on the other side. An advertisement that sells tickets, in my mind, is direct response, because it has a specific call to action. To me the difference is, does your message go out and have a specific call to action? In other words, buy a ticket, give a gift, volunteer, bring a gift in-kind. Or is it just an ad that says, “We exist, and we're really cool.” To me that's the difference. I would spend my money on ticket advertising, if it's effective at selling tickets. Absolutely.

Rebecca: And then on the heels of that we had someone write in and say: “I'm new to the nonprofit sector. Can you define direct response fundraising?”

Jeff: Direct response fundraising is where there is a response, a measurable response vehicle. So direct mail with a reply coupon of some kind and a return envelope, 800 number, something online where they can fill in the form. Something that's not direct response would be the kind of stuff that beer advertisers do, soda advertisers do. Basically where they say, “We exist, we're out there. We have these cool things about us and you should like us and respect us and feel good.” And if it works, the next time people are in the store, they'd buy that rather than the other one.

But you can't measure the connection between the message and the person's action. It's not that it's ineffective. It's just that it's very, very expensive. And it doesn't start to work until you've spent a lot of money and that's why it's really the playground for very large corporations that can spend billions on it.

Coca-Cola can just get their logo out in front of you everywhere you turn around, and that has some impact on how people remember Coke and want Coke when they're thirsty. You don't have enough money to do that.

Rebecca: We've been getting some emails and questions in concerning arts and cultural organizations. This one comes from Laurie who says: “As a small arts organization our largest expenses are associated with our programming costs. Board member are saying we should cut or even cancel our signature programming, which is a theatrical production, in order to 'catch up' financially since fundraising has been disappointing these last few months. Do you have arguments to keep up programming, that this should not get the ax? Or should it? How bad does it have to get until we cut major programming?”

Jeff: This is a little out of my area of expertise, but I'll give you my opinion on that. It would be, if you cut a program what's the financial impact of that going to be? And if you can say, “Yeah that's going to hurt us a lot because donations come from that program area,” or “We'll lose the ticket revenue and that will have this impact on us,” then you say, hmm, cutting it may not be a good idea. But you may be in the place where you say, “You know, we do have to cut programs. We simply can't fund the way we used to, and

something's got to go.” Don't make it donor acquisition. You should cut programs before you cut donor acquisitions.

So I would try to remove it from the emotion of how bad it would feel to cut the program and just look at what's the impact of it. And take non-monetary things into account, but look a lot at the money impact of cutting a program. If you are an arts organization, very often the difference between fundraising and programming is not that clear. I mean, there aren't too many donors who participate in your programs, right? So if you cut programs, you could lose donors.

Just look at that and see and consider carefully the potential costs of cutting a program.

Rebecca: Well, let's get back to a couple of the marketing and communications questions. We had one that came in and said, “A new member of our board says when it comes to our nonprofit marketing, we need to be habitual about segmentation. We're not currently doing any segmentation at all. Is that a strategy we should pursue this year? If so, how do I even get started?”

Jeff: Your board member is correct. Segmentation is extremely important. And if we had 24 hours we would still be talking about it at the end of that time. Roughly you need to know - you've heard of recency, frequency, and monetary segmentation. That's the three ways you look at your donors. Recency is how recently they last gave to you. Frequency is how often they give, and monetary is how much they gave to you. And you want to know which is which. And in short, the more recently somebody gave to you the more likely they are to give again now. If a long time has passed, like 12 months, the chances of their giving goes way down. People who give high amounts are likely to give high amounts again. People who give frequently are likely to continue to give frequently.

So once you know that, you can start marketing smart to them. So if somebody gave three months ago, talk to them again. If somebody gave 24 months ago, well I wouldn't count on getting another gift from them. The response is very low from that group. If somebody gave you \$100, don't ask them for \$10.

That's what segmenting is, and it makes a big, big difference. So, yes, I would absolutely get into segmentation. You may need some professional help on that, you may need some software help. But it can make all the difference. If you are not doing it at all, you can revolutionize your fundraising by that way.

Rebecca: Someone else who is working on doing some testing says, “We're testing direct response fundraising via email. Do you have any copywriting tips for online direct response campaigns?”

Jeff: Another big one. There's probably whole other seminars on that. In short, email is a lot like direct mail, but it differs in a couple of ways. The biggest way - the freakiest way, to me - is shorter messages seem to work better in email, whereas in direct mail longer messages work better. Being direct and having links to your giving page early and often is very important. I've seen very graphical and text-only emails. Both work very well, so

I'm not sure there's necessarily a right way in that area. But being very direct and quick and having links that are visible within the first few line are all very important things.

That's barely, barely scratching the surface of the surface of that.

Rebecca: I don't believe we gave it out in the beginning. Why don't you send people to your blog. What is the Web address for it so people can follow your advice in the future?

Jeff: It's www.donorpowerblog.com. And we talk about fundraising from the point of view that donors matter. Donors are humans. Donors are not machines that we punch and get money out of. We need to put them in the center of our thinking.

Rebecca: We have a question from Joel who says: "I work for an organization who's been around for nearly 10 years and struggles with name recognition in the community. I'm a firm believer that we should continue or even increase our donor acquisition now that we are in a recession, but I've been having a tough time convincing the board to allow this kind of investment. They're ready to be more well known in this community but I would like to be more well known to people who we already have contact with. Any suggestions to get them to trust this approach?"

Jeff: Yeah, it's going to be tough. It's hard for them to see it because it's an investment. But I would go through maybe the thing to look at earlier where you look at the value of first-year, second-year, third-year and fourth-year donors. The more donors you get now, the better off you're going to be next year and the better off you'll be the year after that and into the future. If you want your program to grow, you need to invest in donor acquisition. It's that simple. There's not really another way to grow unless you find some other magical source of funding, which those magical sources are really rare right now. And I'd rather have a whole bunch of \$50 and \$100 donors than one sugar daddy who now is watching his portfolio tank.

I don't know if that gets you where you need to be with them, but tell them a famous blogger told you. I don't know.

Rebecca: We have one last fundraising question in terms of strategy. It says, "In looking at historical giving, do you recommend that I put the bulk of resources on higher givers that only give \$200+ once a year? Or should I continue to put resources into those donors who give \$25 every time they are asked? We're trying to work on monthly or recurring gifts, but we have a lot of the latter and only about 25% of our donors are the former. We have about 10,000 supporters statewide."

Jeff: I would do the net present value exercise that we went through earlier with your donors. I think that will give you the answer to that question. But I can predict the answer to it, which is generally your investments on higher-end donors are going to have higher returns. In this economy there's a little bit of a wild card there. I'm not sure a \$200 donor is quite in the category of somebody who is suffering the way high-end donors are. But if you do that math -- what do they cost you to have and what do they bring in - I think you'll get a clearer picture and say, "Well, let's shift some money to the \$200 donors." And ask them more or ask them in a more high-impact way.

But take into account the cumulative giving. Somebody who gives you \$25 several times a year is not a \$25 donor. They are maybe a \$100 or \$150 donor. So you need to look at the big picture to get a clear idea of where to deploy your resources.

Rebecca: Leah writes in and says: “What is a good net-to-gross revenue rate? You mentioned raising \$1.50 for every dollar spent, but what is considered a 'good' rate in the nonprofit sector in general?”

Jeff: Well, it depends. \$1.50 to a dollar is pretty bad. But it depends kind of on what you're looking at. From a group of general donors -- and by general, I mean people who are not giving you a \$250 gifts - 3/1 is OK. And going up over 3/1 is better. Among major donors you should be able to get higher, it should be at 10/1 or 12/1. And of course in acquisition you're bringing in less than you're spending. So I don't know if you're asking the question about your entire program. But the best way to look at that is to segment it out and look at who's where. And you should be getting -- in general, across everything -- between 2/1 and 5/1, probably. I hate giving you a number like that because everybody -- especially if you are a small organization, there's wildcards. But you should be somewhere in that ballpark.

Rebecca: Great. Well, this has been wonderful. Thank you so much, Jeff. I just want to remind everybody that we will be sending around the link to download recording for this call within 24 hours and then the text transcript will be available within a week. We will also open up our registration for our next Nonprofit 911 call, which will be on Tuesday, February 3, at 1:00 p.m. So thank you, Jeff. We really appreciate you donating your time today. It's been enlightening for all of us that have been on the call. And we hope to have everyone on another call in the future. Everyone have a great day.

Jeff: Thank you and good luck.