

The Ultimate Fundraising Donor Acquisition Cost Cheat Sheet

WHAT IS DONOR ACQUISITION COST (DAC)?

Donor Acquisition or DAC is the price you pay to convince a potential donor to make a gift to your organization. The cost to acquire a new donor and donor lifetime value go hand in hand. These two metrics combined can be used in analysis to determine if your fundraising department is financially viable or not.

HOW CAN DAC BE USEFUL?

Any organization, nonprofit or for profit, has to sustain itself. Without enough funding a nonprofit risks going “out of business” just as quickly as any car dealership or clothing store.

Business model viability for most nonprofits will come down to the fundraising department’s ability to balance two variables:

- Donor acquisition cost (DAC)
- The ability to monetize those donors, or Lifetime Value of a Donor (LTV)

THE DAC FORMULA

To determine the cost to acquire a donor (DAC) you would sum all costs of appeals and marketing over a given period, including salaries and other employee-related expenses, and divide it by the number of donors that you acquired in that period.

$$\text{DAC} = \frac{\text{Total Cost}}{\text{Total \# of Acquired Donors}}$$

Figure 1.

INTERPRETING YOUR DAC

Low DAC and high donor LTV would look something like this:

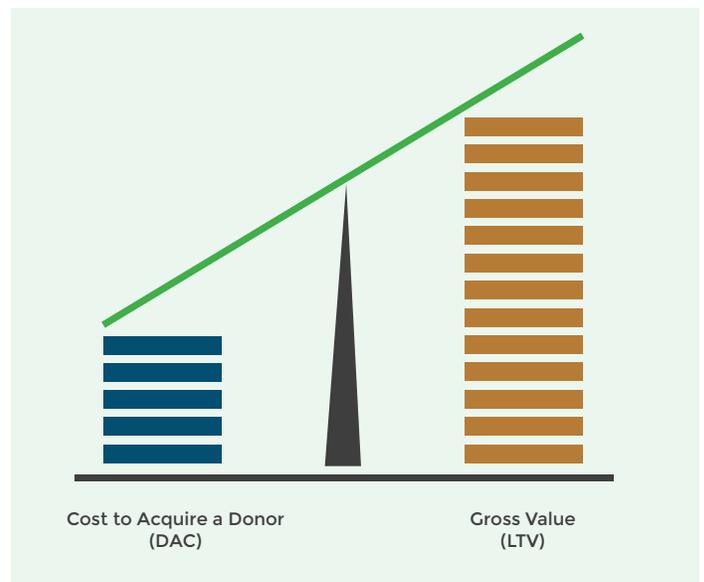


Figure 2.

Whereas high DAC and low LTV would look more like this:

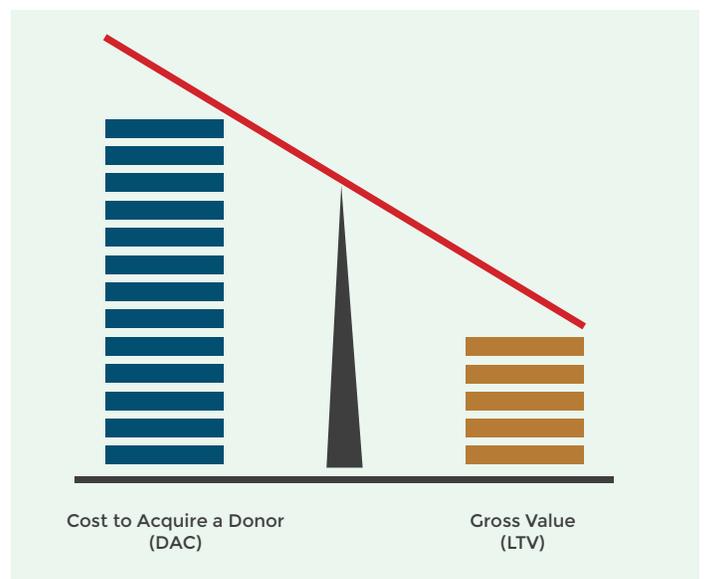


Figure 3.

The higher your DAC the more revenue you'll need to generate over the lifetime of your relationship with your donors. And vice versa for low DAC.

WHAT COSTS SHOULD I INCLUDE IN DAC?

All expenses related to your fundraising operation should be accounted for in your DAC calculations. This includes overhead expenses, third party vendors, mail, and anything else that was used to raise funds. As donations are increasingly made online, it is also useful to look at donor acquisition cost without the employee-related overhead expenditures because online donations tend to be more "self-service" after initial setup costs.

BALANCING DAC WITH LTV

Take a look at the diagram below. There are several factors that can impact both LTV and DAC.

For example, the more your organization takes advantage of digital platforms, such as online donations, the more opportunity there is for your DAC to decrease. Likewise, it's important to pay attention to overhead expenses that can increase LTV, such as visits with principal and major donors that help with donor satisfaction and retention. As you can see, it's a very delicate balancing act.

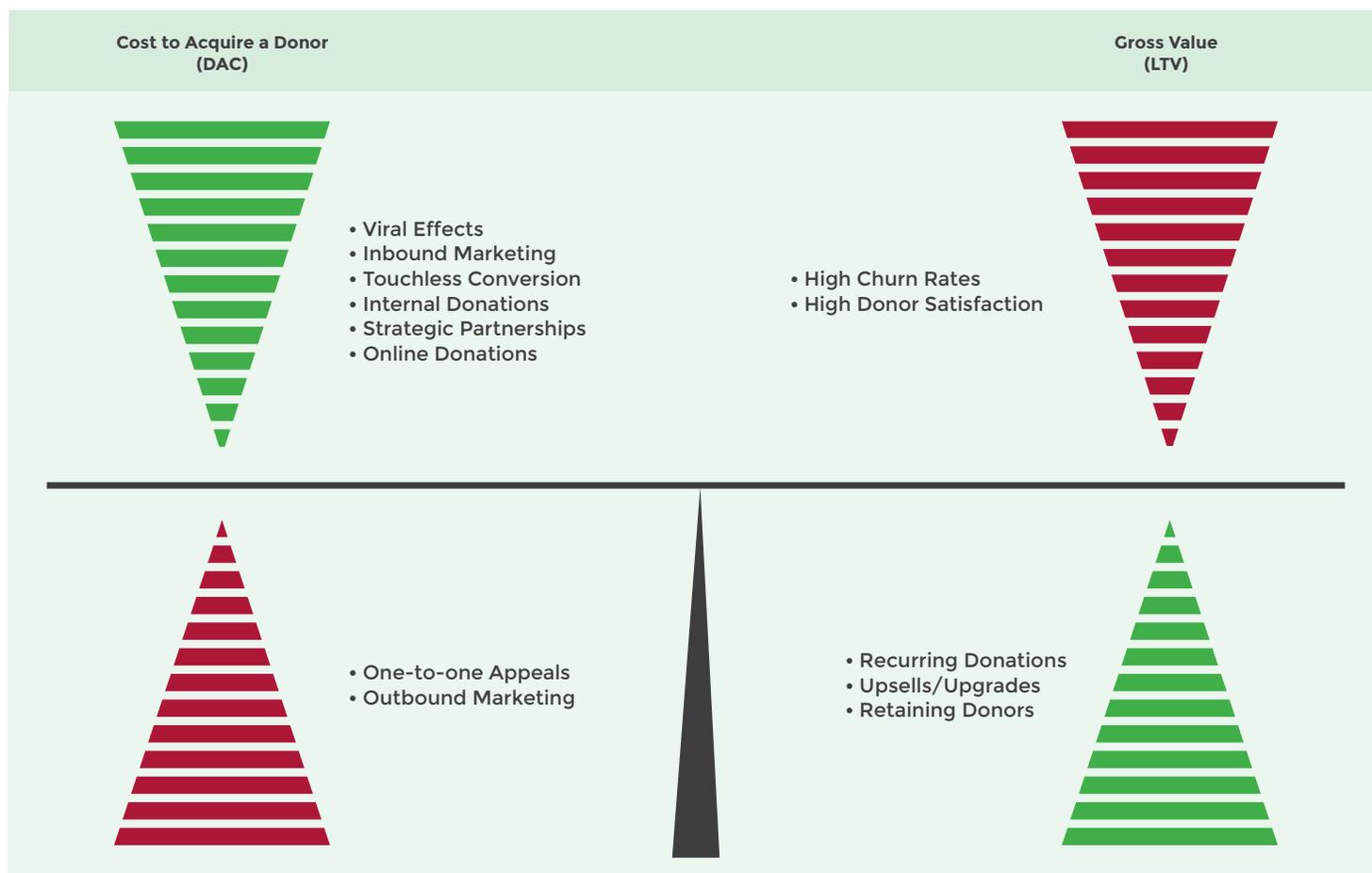


Figure 4.