

The Ultimate Fundraising Direct Mail Metrics Cheat Sheet

MEASURING RETURN ON INVESTMENT (ROI)

Measuring the effectiveness of direct mail campaigns can be a bit tricky. When you think of direct mail, you think of response rate. Of the traditional direct mail metrics this is the most commonly used to measure success or failure. But response rate on it's own is too simplistic and provides a very limited scope for analysis. When it comes to analyzing your overall direct mail campaign(s), you'll need a few more metrics and reports.

AVOID "VANITY METRICS"

Direct mail campaign data usually lives in the direct mail (or caging) firm's database, and that can complicate things. The direct mail firm you work with has one goal—retain your business. With that in mind, don't be surprised if they send you a report that highlights some "vanity metrics".

Avoid reports that only include metrics on:

- Number of people engaged
- Number of of new donors acquired
- Response rate

These metrics are nice to have, but they don't help you with overall strategy.

FOCUS ON "ROI METRICS"

Our goal here is to answer the question, ***"How effectively is our fundraising budget being spent on direct mail?"***

- Donor Acquisition Cost
- Average Donation Amount

- Donor Lifetime Value
- Retention Rate

DONOR ACQUISITION COST

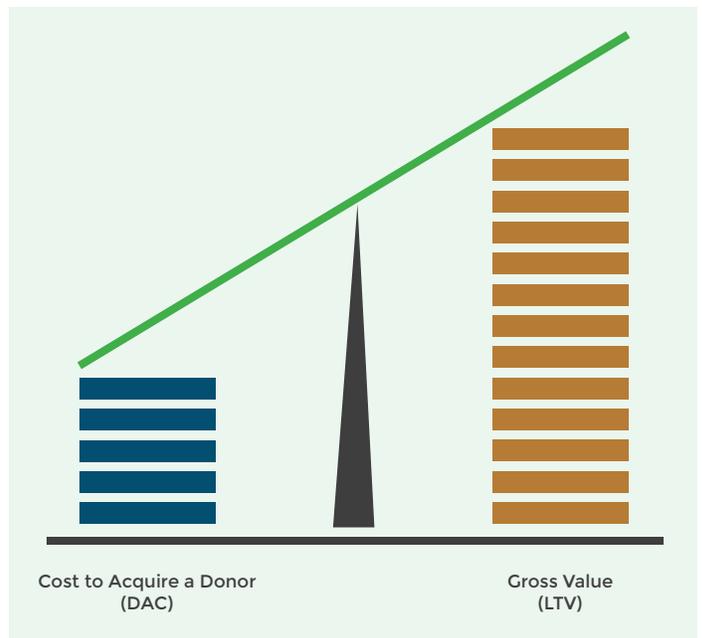


Figure 1.

DAC is the amount of money spent to acquire a new donor. To calculate DAC, you sum all the 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 2.

The hope with direct mail is that your DAC will be low. You will want to calculate DAC on a per campaign basis.

AVERAGE DONATION AMOUNT

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.

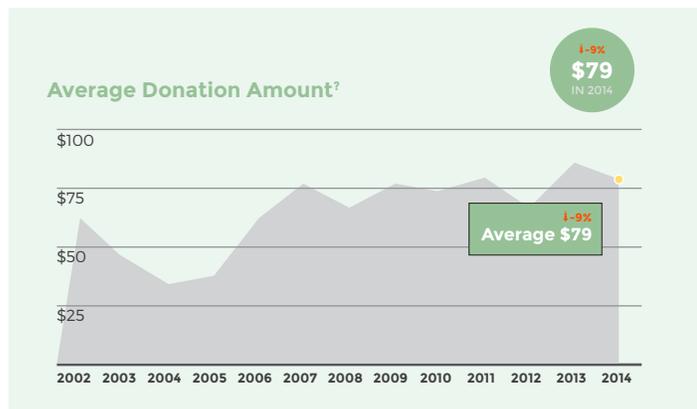


Figure 3.

This is one of the more aptly named fundraising effectiveness metrics. Average donation amount is exactly what you think it is—the average transaction size.

We will want to calculate average donation amount on a per campaign basis, just as we did with DAC.

$$\text{Average} = \frac{\text{Sum of Donations}}{\text{Count of Donations}}$$

Figure 4.

DONOR LIFETIME VALUE

An even more telling metric than average donation amount is donor lifetime value (LTV). Where average donation amount provides you with a snapshot in time (this is the size of an average gift at this exact moment), donor lifetime value tells you a more compelling story (the amount of revenue an average donor produce over the lifetime of their giving).

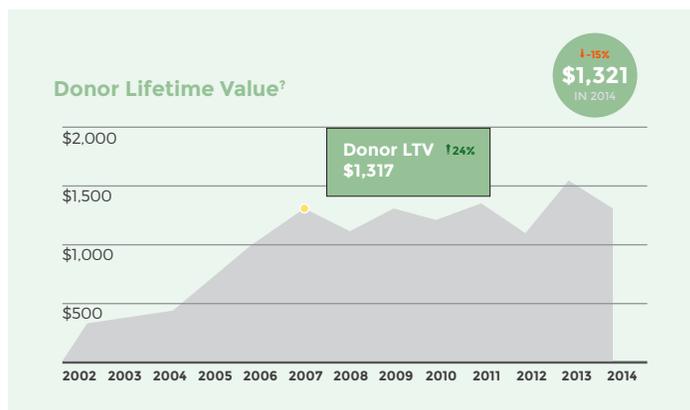


Figure 5.

$$\text{LTV} = \text{Lifespan} \times \text{Average Donation Amount} \times \left(\frac{\text{Total \# of donations}}{\text{Total \# of donors}} \right)$$

Figure 6.

RETENTION RATE

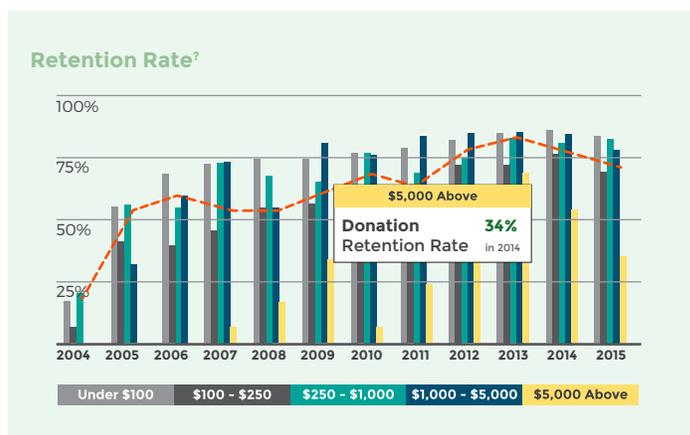


Figure 7.

Last but not least is retention rate. This is the metric that many direct mail marketers fear the most. How many of those acquired donors are sticking around and donating next year or the year after that? We all know that it is more cost-effective to retain donors than it is to constantly acquire new ones (remember DAC!), so it is pertinent to track and measure retention of direct mail acquired donors.

$$\text{Retention Rate} = \left(\frac{\text{Retained Donors}}{\text{All Donors}} \right) \times 100$$

Figure 8.

BRINGING IT ALL TOGETHER

❖ **DAC should be less than LTV**

- This is an absolute must. If you are spending more money to acquire a donor than they donate to your organization you will end up in the red, quickly.
- Direct mail is a low DAC channel, so your DAC should be considerably lower than other campaigns and departments.

❖ **Average gift amount shouldn't be a surprise.**

- This may be the first time you are looking at the average gift amount from a direct mail campaign. Use this opportunity to create a benchmark for future campaigns.

❖ **Compare LTV with donors acquired through other channels.**

- What other channels do you use to acquire new donors? Whatever the answer may be, calculate the LTV of donors from that segment as well. Compare the LTV of those segments to help determine which channel deserve more long term investment.

❖ **Retention may be low, but lookout for future reactivation.**

- It's no secret that direct mail acquired donors tend to churn relatively quickly. Use your retention report to help set benchmarks for future direct mail campaigns and also stay cognizant of reactivation (the number of donors who stop donating and then return in a different year).



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