

The Ultimate Fundraising Donor Lifetime Value Cheat Sheet

WHAT IS DONOR LIFETIME VALUE (LTV)?

Lifetime Value or LTV is a prediction of how much money you can expect to receive from a donor before they stop giving to your organization. This information can help you make important decisions about your fundraising. A high LTV is a good thing! It means you can expect to receive lots of revenue from donors before they lapse. So you can afford to spend a bit of money on appeals, marketing, support, and so on to acquire them in the first place.

HOW CAN LTV BE USEFUL?

LTV can be a guiding light when it comes to determining fundraising budget. Remember, LTV is a projection of how much revenue each new donor to your organization will provide. With that in mind, you can be more informed on how much you will spend to acquire that new donor.

Pairing Donor Acquisition Cost with Donor Lifetime Value provides you with a data-driven approach to fundraising budgeting. Imagine breaking down DAC and LTV by giving level segments. If your under \$100 donors have a lifetime value of \$200 you know that you can't spend more than \$150 to acquire them. LTV and DAC let you become more analytical in your planning.

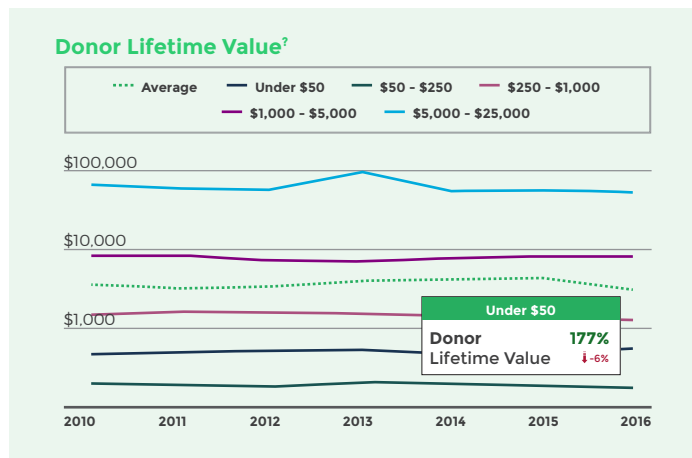


Figure 1.

WHY ARE THERE DIFFERENT WAYS TO CALCULATE LTV?

By now you have probably Google searched, “donor ltv” a few times and read many different ways of calculating the metric. You might be wondering, “why are there so many ways to calculate this thing?”

The reason there are so many different formulas out there is because small tweaks in the equation can have outsized impacts on the final metric. Some organizations will tweak their LTV calculation to make their data “speak” a certain way.

The most important thing to consider when calculating and reviewing lifetime value is that you are consistent. Pick an equation that makes sense for you and stick with it.

WHICH FORMULA SHOULD I USE?

It's easy to say, “pick a formula”, but how do you know it is the right one for you? Let's error on

the side of caution and use a tried and tested equation that works for most all nonprofits..

Increasing LTV can be accomplished by retaining more donors. Any activity that you can do to increase the lifespan (one of the variables in our equation) will greatly increase your LTV values. Also, upgrading those retained donors will boost average donation amount, further increasing LTV.

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

Figure 2.

BALANCING LTV WITH DONOR ACQUISITION COST (DAC)

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



Figure 3.