MEASURING YOUR RETURN ON INVESTMENT IN MULTICHANNEL FUNDRAISING CAMPAIGNS

By Peter Schoewe, Director of Analytics
In a multichannel nonprofit fundraising environment, the old methods of measuring return on investment begin to fall apart. It is no longer sufficient to pay for a mailing or a phone campaign, wait for donors to come in, and then measure their gifts over the next twelve months. Today’s nonprofit fundraiser can choose from a multitude of channels to invest in—and each channel can have different cost structures and produce different types of donors and returns.

This complexity makes it even more critical to be able to understand—and measure—the return on your fundraising investments, so that you can make data-driven investment decisions across channels or across a combination of channels. For example, in order to optimize your integrated fundraising program, you should be able to answer the following types of questions:

1. How much money should you invest in online acquisition of new donors compared to direct mail acquisition?

2. How does the long-term value of a multichannel donor differ from the long-term value of a single channel donor?

3. What is the purpose of your fundraising efforts? Is it just to raise dollars—or do want to acquire a number of advocates, volunteers, activists, etc.?

These questions may seem straightforward—but behind each one lies a myriad of data, gift records, invoices, salaries, actions taken—that must be analyzed, summarized, and distilled to make fully informed decisions.

At Mal Warwick | Donordigital, we believe it is necessary to be able to answer those questions—and make investment decisions—based on a common framework that is simple to implement. This type of framework for measuring return on investment has been established for years for direct mail and telemarketing efforts. In this paper, we will lay out a new framework for a Multichannel Return on Fundraising Investment that can be applied—with relative simplicity—to a multitude of different fundraising efforts across different channels.
This framework can be implemented through the following four steps:

1. Establish the Goal
2. Start with the “I” in ROI—Define Your Investment
3. Understand the “R” in ROI—Calculate Your Returns
4. Measure the Multichannel Return on Fundraising Investment for every fundraising activity

We’ll explain how to implement each of these steps in the following sections.

>> STEP 1: ESTABLISH THE GOAL

Fundraising efforts can have benefits far beyond dollars for a nonprofit organization. For years, direct mail appeals have helped raise awareness and inspire volunteers and advocates to take action. With the advent of online fundraising, the additional benefits of having a large number of visitors to your website, a large email list, and an active social media presence have muddied the waters even further.

In spite of the capabilities for multichannel fundraising efforts to engage individuals to become advocates, activists, or volunteers, we recommend that—for the purpose of calculating return on investment for fundraising efforts—the following standard should be used:

The goal of fundraising investment is to produce revenue in the form of donations that have cash value.

We recommend narrowing the goal of your efforts to this level for two reasons:

1. Attempting to account for the intangible benefits that may result from fundraising efforts can quickly make it impossible to measure the value of investment across channels. Is an online advocate more valuable than a high-powered event attendee? Which means more—5,000 views of a billboard or 500 followers on Twitter? Especially now when resources for investment are hard to come by, it’s critical to make fundamental investment decisions using the same baseline.

2. This baseline needs to be quickly and easily measurable. By simplifying the goal to something everybody needs to track and count in the same way (number of dollars raised), it becomes much more feasible to establish standards for return on investment across your fundraising efforts.
Of course, this doesn’t mean you should never invest in efforts that can’t be measured—or that you must produce equivalent revenue in all channels. But it does mean you should make those investment decisions after you have prioritized and optimized investments you know will have a measurable return.

>> STEP 2: START WITH THE “I” IN ROI—DEFINE YOUR INVESTMENT

To be completely accurate in measuring fundraising investment, you would need to count and distribute the costs of a thousand different items—the cost to turn the lights on every morning, the salaries of everyone on your staff, the money you paid for the sandwiches at your last brainstorming retreat. However, calculating expenses to that level of detail is not feasible given the limited time and resources available to most fundraising programs.

Therefore, we recommend the following two standards in determining levels of fundraising investment across channels:

1. **Count the direct costs of initial and subsequent efforts.**

Direct costs should include all expenses incurred specifically to make the effort possible. Examples of direct costs include:

   1. The cost per contact for a phone campaign.
   2. The cost of paper, printing, list rental, and postage for mail efforts.
   3. Online advertising and list rental costs.
   4. Production expenses and media buys for DRTV.

These costs should be divided into expenses for initial and subsequent efforts. Initial costs reflect the investment required to create a new relationship—such as through a direct mail acquisition package, an online advertising buy, or a cold phone call. Subsequent costs are those expenses borne in maintaining the relationship—such as a renewal mailing or a reactivation phone call. Note that for online channels, subsequent efforts—such as an email appeal—may not have directly attributable subsequent costs.

2. **Count only those indirect expenses that are outside your usual cost of business.**

A robust fundraising program incurs many costs that are not directly attributable to any one effort. You need to have a database to maintain your donor records. You need to maintain a staff and a pool of outside vendors
and consultants to execute campaigns. You must have a website that is functional and can accept donations—and you must have systems in place to process and acknowledge the donations you receive.

But most of these expenses can be considered a cost of doing the business of fundraising, independent of any single fundraising effort. You will not take down your organization’s website, throw away your database or stop thanking individuals for gifts if you decide not to perform a new donor acquisition effort this fall. Therefore, taking the extra effort to assign these expenses across different fundraising efforts is most likely not worth the effort—and will not help you make strategic decisions about which channel to invest in.

The only exception to this rule is if the indirect expenses fall outside of your usual cost of doing business. If you are starting a direct mail program from scratch, and need to develop the infrastructure for caging donations, that cost should be factored into the cost of the acquisition mailing. If you want to start a social media campaign to find new donors, and need to hire an individual to manage it, that cost should also be considered. Or if you’d like to run a DRTV campaign and need to engage a dedicated consultant to assist you, the expense of a consultant’s services should be included in the “I” portion of your ROI calculations.

For all direct and indirect investments you choose to measure, you need to know two things:

1. The effort in which they apply. Typically, this is done by assigning costs to an individual donor or prospect throughout the length of his or her engagement with your organization. For example, if a donor was acquired through an online advertising effort, and then received four emails, two phone calls, and five direct mail pieces in the next 12 months, the initial and subsequent direct expenses arising from each of these efforts would be used to determine the return on investment of the initial effort.

2. The date the expenses are incurred. Because return on investment is usually measured at 6, 12, 24, and 36 months after the initial effort, it is important to understand when you incurred the expenses to acquire, cultivate, and renew your donors and prospects.

While this may seem overwhelming, most fundraising databases can handle this level of detailed tracking of investment, as long as you take the time to consistently code your efforts and religiously assign your direct costs.
++ STEP 3: UNDERSTAND THE “R” IN ROI—CALCULATE YOUR RETURNS

Based on step one above, the calculation of returns becomes a whole lot easier. Because your goal is to raise dollars, the return on your investment is simply the dollars you raise. As with tracking costs above, this can be done most easily at the donor or prospect level—through the following steps:

1. Assign an origin effort to every donor or prospect you acquire.

This should be the effort that first identified the individual as a likely donor to your organization. It could be an online action based on a click through from a banner ad, an inbound phone call from a DRTV presentation, or a piece of return mail from a direct mail acquisition effort.

2. Measure all initial and subsequent revenue from that donor or prospect.

This would include all direct gifts made by the individual, including the initial gift to your organization.

By taking these two simple steps, you can then measure the sum total of all revenue achieved due to a fundraising effort. For example, if 20 prospects are acquired through an online advertising campaign, you can then measure the total of their subsequent gifts in the same buckets you are measuring subsequent investment—initial and subsequent revenue at 6, 12, 24, and 36 months.

An argument can be made that returns from fundraising investment should also include additional revenue from existing donors who expand their relationship because of the fundraising effort. For example, if an online acquisition effort converts an existing direct mail donor to multichannel giving, the subsequent value of the multichannel gifts should be assigned back to the online acquisition effort.

However, similar to the cost of doing business on the investment side, we believe the combined efforts of an integrated fundraising program will serve to increase donor value across all channels. Online efforts reinforce direct mail efforts that also make donors more responsive to give over the phone. Attempting to measure these indirect returns can quickly make it impossible to compare investments across channels. Our goal is to establish a simple measure of Multichannel Return on Fundraising Investment that can be used across channels—and that can also be used for benchmarking across organizations. Therefore, we recommend counting only those returns from donors or prospects who originated directly from the fundraising effort.
>> STEP 4: MEASURE THE MULTICHALNEL RETURN ON FUNDRAISING INVESTMENT

Once you have measured your investment and determined your return, measuring ROI is easy. Simply divide total revenue returned by the total of the initial and subsequent costs. You can measure this ROI as a percentage—with 100% ROI meaning you have gained a dollar for every dollar you spent. Or it can be phrased in terms of dollars—for every $100 you spent, your return in donations is $100. Here is an example:

- You spend $10,000 on an online campaign that acquires 5,000 new prospects. Over the next 12 months, you send these prospects 25 emails at $0 expense, two phone campaigns that cost $4.50 per contact for 500 contacts, and three direct mail campaigns at $0.50 each. That means your total expense is $10,000 + $0 + ($4.50 x 500) + (3 x 5,000 x $0.50) = $19,750.

- Over the same 12 months, 250 of the 5,000 prospects convert to donors, giving a total of $21,250.

- The ROI for the online campaign = $21,250/$19,750, or 108%. In other words, for every dollar you spent, you raised $1.08.

>> A REAL WORLD CASE STUDY

We recently performed this type of ROI analysis for a client’s online acquisition program.

We first measured the growth in net value per donor acquired over three years for the past three years. Our research showed the client typically broke even on their acquisition investment within two years, except during the height of the recession. And even more surprisingly, the return on investment for online and offline acquisition were comparable, with online donors having a higher initial value, but offline donors growing in subsequent value at a quicker pace.

First we looked at the number of new donors acquired per year through online acquisition—and then measured the return on initial investment after 12 months. This chart shows that—while the volume of online acquisition has...
been much lower than what could be achieved through traditional direct mail—the return has been comparable or even greater than typical direct mail returns. Before the recession, the client achieved better than a 150 percent increase on their investment after 12 months.

**Chart I: Online Acquisition: New Donors and 12-Month ROI**

We wanted to compare this performance directly to direct mail performance, so we first ran the overall lifetime value per donor by channel of origin—looking at those donors who were acquired through traditional direct mail compared to those who were acquired through online paid acquisition.

**Chart II: Growth in Average Lifetime Value Per Donor by Acquisition Channel**

This chart shows online acquired donors have typically had a much higher value in their initial year on file than offline acquired donors. However, the growth in value for the offline donors has been more rapid than the online donors. For donors acquired in 2008, the average initial year value was $44 for direct mail acquired donors compared to $61 for online donors acquired through paid acquisition. However, after three years on file, the direct mail donors had an average lifetime value of $90 compared to $94 for online acquired donors.

In order to determine what was causing this more rapid increase in value for direct mail donors, we looked at the subsequent giving patterns by origin
channel. We discovered the direct mail acquired donors were much more likely to convert to a second gift after acquisition than the online acquired donors.

**Chart III: Second Gift Conversion Percentage, by Origin Channel**

This chart shows direct mail acquired donors have a stronger conversion rate to second gift in their first year (between 20 and 30 percent, compared to under 10 percent for the online acquired donors). But even more dramatically, their conversion rate typically climbs to almost 50 percent after their second year on file, while the online acquired donors remain below 20 percent. While this is partially due to the lower loyalty of online acquired donors, it also points to the much more established pathway for converting new donors to repeat giving when acquired through the mail. This discovery has enabled the client to put more focus on the conversion pathway for their online acquired donors—in order to ensure a higher proportion of these high value donors convert to longstanding and loyal donors.

In looking at the subsequent giving of online donors, we saw further evidence of the importance of converting donors to multichannel giving. While we found the majority of subsequent giving from online acquired donors came through the online channel, the gifts from online acquired donors through other channels were more valuable.

**Chart IV: Subsequent Average Gift from Online Acquired Donors, by Channel of Gift**

This chart shows that, on average, the subsequent online gift from online acquired donors was $34.94. However, when online donors gave to direct mail, the average gift was closer to $60. Even phone contributions were higher than online
gifts—at $46. This indicates that, by using a full toolbox of subsequent solicitation efforts, the client was able to upgrade multichannel donors more successfully than those donors who remained siloed in the online channel.

Because of the combination of higher initial value but lower long-term loyalty, we found that the online donors acquired through paid acquisition have similar performance in terms of return on investment in comparison to the donors acquired through traditional direct mail. The previous chart shows the estimated net value of a donor in his or her initial year on file, second year on file, and third year on file based on both year and channel of acquisition.

Chart V: Growth in Net Donor Value by Year and Channel of Acquisition

Our next step was to look at the return on an investment—in this case, measuring the return of $100 invested in acquiring donors through the online or direct mail channel over the course of three years.

Chart VI: Return on Investment: Growth of $100 Over Three Years, 2008 Data

This chart used the performance of donors acquired in 2008 to measure the return on investment over three years. After the first year, we see the client has earned back between $50 and $100 for every $100 invested in acquisition of new donors, with online investment performing more strongly than direct mail. In the second year after the investment, they are just above break-even, having earned over $100 for each $100 invested. And, finally in the third year we measured, they have earned close to $150 for each $100 invested—and this year return is consistent for both the offline and online channels. This means the client can balance its
acquisition investment between direct mail and online—while still achieving acceptable break-even goals through both channels. This allows the organization to minimize risk while opening up new audiences of individuals who are interested in offering their support.

**IN CONCLUSION**

Measuring ROI in this way is a lot of work. It means rigorously tracking all of your campaigns and donors, and being able to assign costs and revenue to the proper effort. However, to determine how much money to invest across competing channels, it is impossible to make the right decision without doing this legwork.

And if you simply don’t have time, don’t despair. Here at Mal Warwick | Donordigital, we are interested in developing a true multichannel ROI benchmark that can be applied across organizations and sectors, providing you with the same sort of data-driven analysis to guide investment decisions across channels as we provide for our clients.

If you are interested in participating in our benchmark group at no cost—and have data that can be tracked and assigned as detailed above—we’ll do all the grunt work for you, and let you know the ROI you are achieving across your different fundraising channels. As an added bonus, you’ll be able to benchmark your ROI performance with other organizations. Please contact me at peter@malwarwick.com or (510) 225-0406.
ABOUT THE AUTHOR

Peter Schoewe, Director of Analytics for Mal Warwick | Donordigital, has over 15 years of experience in direct response fundraising, with a focus on creating strategy built upon a foundation of strong analysis. At Mal Warwick | Donordigital, Peter has led the development of an integrated reporting and analytics suite—including overall program trends, lifetime value, scenario building, and segmentation analysis tools—focused on providing a wide variety of users with the information they need at the level of detail that is most meaningful to them. Peter’s insights have guided our work with many of the nation’s leading nonprofits, including People for the Ethical Treatment of Animals, Ocean Conservancy, CARE, Human Rights Campaign, and Rails-to-Trails Conservancy. He is a graduate of the University of Chicago and has completed graduate level coursework in statistics and modeling techniques.

ABOUT MAL WARWICK | DONORDIGITAL

Mal Warwick | Donordigital is a full-service, integrated fundraising consulting agency that has worked with exceptional nonprofit organizations and progressive political candidates and causes since 1979. Our senior-level professionals provide strategic insight, in-depth analysis, award-winning creative, and comprehensive production and management services. Our focus is direct mail, online, telephone, mobile, and social marketing fundraising and advocacy. We bring a passion for fundraising to the exceptional causes our clients serve. That passion enables us to help our clients build outstanding fundraising programs and enduring long-term relationships with their donors.

We are proud to work with outstanding clients that are making a real difference in the world. Clients like AmeriCares, Habitat for Humanity International, Earthjustice, National Public Radio, National Organization for Women, National Park Foundation, Human Rights Campaign, Ocean Conservancy, Women for Women International, and many others.

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