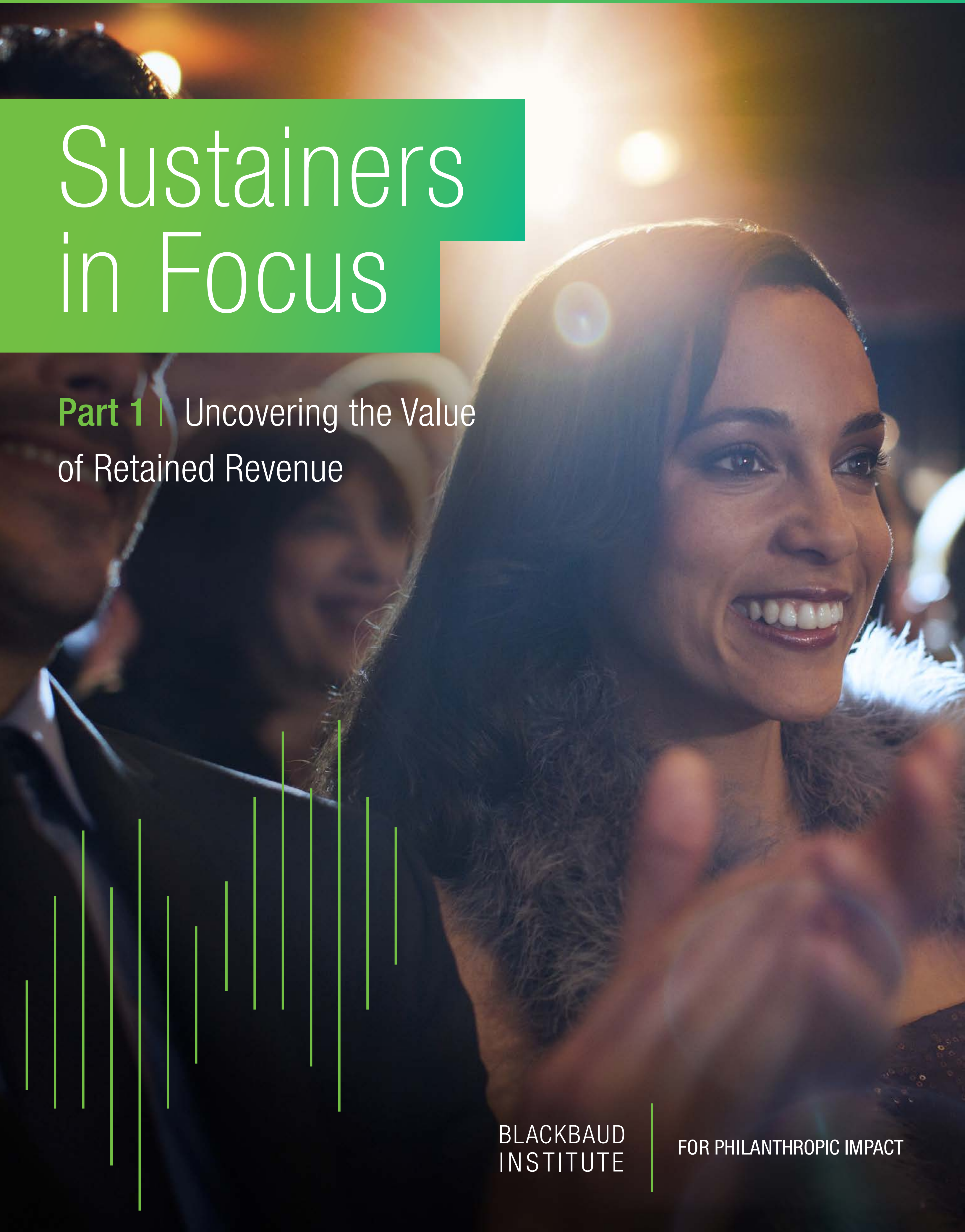
Sustainers in Focus

Part 1 | Uncovering the Value of Retained Revenue



BLACKBAUD INSTITUTE | FOR PHILANTHROPIC IMPACT

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FOREWORD

Sustained donors, monthly giving, or recurring giving—whatever you call it—is an important, yet often overlooked, tactic in a fundraising portfolio.

Initiating such a programme can cause internal strife across teams, necessitate multiple marketing agendas tailored to steward elusive givers, and create technical issues. With an already overloaded staff, the prospect of cumbersome list segmentations, aligning development needs with financial processes, and rethinking gift levels to accommodate the ongoing gifts from these donors can be daunting. At the end of the day, can it really be worth it?

To that end, we're bringing you a new series that will address these concerns, show you the revenue you are leaving on the table, and point you towards the best bets for your programme success.

This project is a great example of the kind of value we'll be bringing you even more often. We are proud to share this momentous project as a part of our newly minted Blackbaud Institute for Philanthropic Impact. Through the Blackbaud Institute, we will lean on our strong alliances across the philanthropic sector to bring you the best and most diverse perspectives. We will use this platform to listen to our stakeholders (like you!) and uncover insight on the greatest philanthropy questions out there.

Today, we deliver you **Sustainers in Focus**, a study that will show how expanding recurring revenue can impact your bottom line. Stay tuned as we dive deeper into this topic and unearth the key best practices you should employ in building a strategic sustainer programme for your organisation.

Happy reading,

Ashley Thompson,
Managing Director
Blackbaud Institute for Philanthropic Impact

INTRODUCTION

The goal of the Blackbaud Institute for Philanthropic Impact's research is to find and document the best practices that can be broadly applied and repeated to increase fundraising and financial performance across the non-profit sector.

Fundraisers know that the longer donors stay with an organisation, the more valuable they become. That is because their retention represents a commitment to the mission and work of the organisation—they become treasured partners! So, if you imagine your donor base is a financial asset like an endowment portfolio, a sustained donor constituency is like blue chip stocks. It is an especially valuable class of donors. It is a class that meets each of the three essential objectives for donor base development: stability, value and yield.

> *Building sustaining support among our donors made a lot of sense to me, both from the standpoint of the convenience and the financial benefits it offers to our organisation. But until I got to meet our sustaining donors, I didn't realise the extent of their commitment to our mission.*
>
> *—Dr. James Paluzzi, General Manager, KJZZ and K-BACH, Phoenix*

Just as financial market conditions have influence on how you manage an endowment portfolio, conditions of the donor marketplace have an influence on how you manage your donor portfolio. For many years, the non-profit sector has been expanding faster than the rate of individual giving, and the cost of maintaining a donor base, let alone growing it, has exceeded inflation. A healthy sustainer programme is one of the most effective ways organisations can counter these tough donor market conditions.

Sustainer giving is extraordinarily valuable because people give more and it substantially increases donor retention. The combination of these factors not only means a great yield from each donor, but lower costs and higher income!

The Study

This paper is the first of what will be several reports on our continuing study of sustainer giving. It focuses on the answer to the first question management should ask about sustainer fundraising: What is its value? Since the return on sustainer fundraising is long-term and largely a result of great retention strategies, the way to evaluate its potential is to look at year-over-year revenue retention.

Donor retention is an important measure of the stability of a donor base. It gives us a sense of potential value of the donor base and its prospect for producing income. **But *retained* revenue is the measure of actual income.** And, while donor retention is the common measure, retained revenue is rarely used to evaluate fundraising performance. This is unfortunate because it works exceptionally well to measure the return on investment (ROI) for acquiring new or reinstating lapsed donors and, in this case, converting retained single gift donors to sustaining donors.

Essentially, retained revenue tells us how much revenue is derived over time from a fixed group of donors. In our analysis, the fixed groups were defined as new donors in a given year that we then tracked through multiple years. The object of our analysis was to track income from these donors as their numbers declined through attrition over subsequent years. So, in each year we looked at the income attributable to those in the original group who were retained and continued active support.

The Findings

For the first phase of our study of successful sustainer fundraising strategies and practices, we developed a report that provides measurement of retained sustainer revenue over an extended number of years. It also compared retained revenue from sustainers to retained revenue from single gift donors to enable comparison between the values of the two types of donors.

The graph below illustrates what we documented through our sustainer retained revenue report. It represents actual revenue data from one national organisation in our study, and is representative of many of the organisations that we've analysed. It shows new donors to the organisation and the impact retained revenue can have.

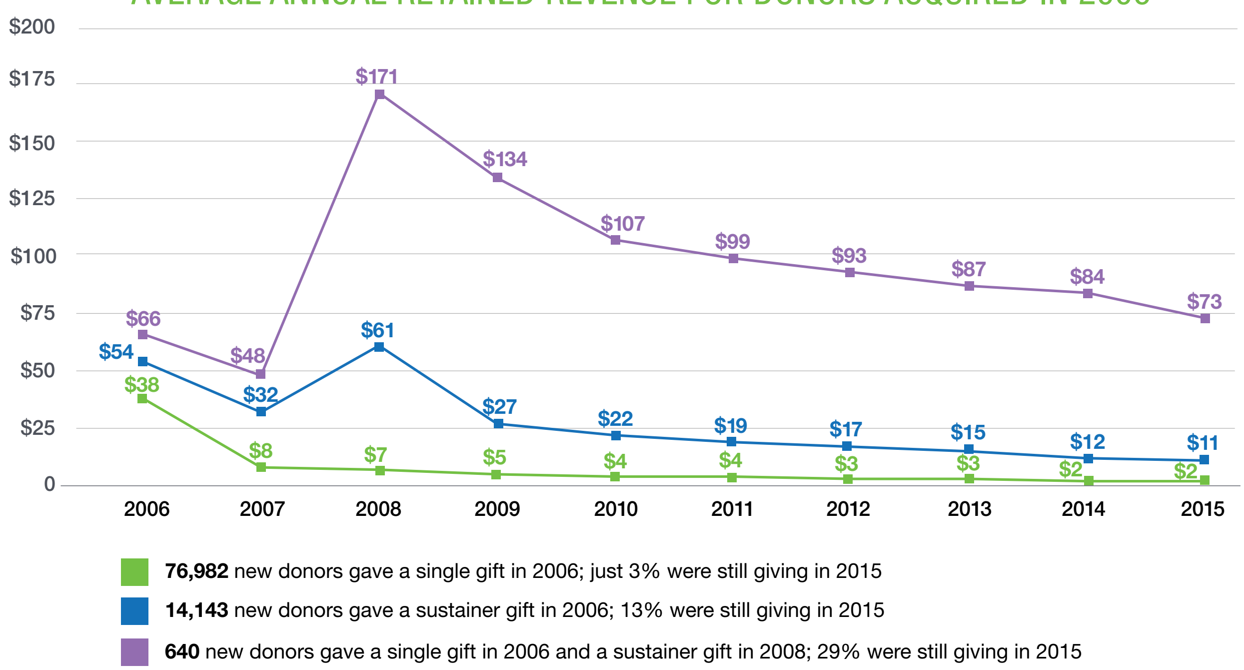
The green line in the graph represents those who became new donors in 2006 and who did not become sustaining donors at any point during the following decade. The blue line represents those who became new and sustaining donors in 2006. And the purple line represents those who became new donors, giving single gifts in 2006, and subsequently became sustaining donors in 2008.

Since we have graphed revenue per *original* donor, and each of the three cohorts is subject to attrition over time, all three lines show diminishing revenue-per-donor. This decline is immediate for the 76,982 donors who gave a single gift in 2006 and who have never signed up for a sustaining gift. In 2006, these 76,982 donors gave a total of $2,925,316, resulting in an average first year revenue of $38. In 2007, owing principally to attrition of this group, their retained revenue dropped to an average of only $8. As these original donor groups continued to decline through attrition, their average *retained revenue* continued to decline until, in 2015, the original cohort was generating only $2 per original donor.

New donors who became sustaining donors in 2006 have fared better. The 14,143 donors gave an average of $80 that year, rising to $107 in 2007 (their first full year of sustainer giving) and then slowly declining over time but still generating an average of $31 per original donor.

New donors who started out as single gift donors but later converted to sustainers have fared the best of all. The 640 new donors who gave a single gift in 2006 and converted to sustainer giving in 2008 had the most significant jump in annual retained revenue. By 2015, this group was still generating $73 per original donor compared to their original first year giving of $66.

AVERAGE ANNUAL RETAINED REVENUE FOR DONORS ACQUIRED IN 2006



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What the data tells us:

- **Retention is better.** As a function of higher retention and lower attrition, the slope of declining value in retained revenue is more gradual than that of single gift donors. While the retained revenue of 2006 sustaining donors decreased 63% in the decade, the retained revenue of single gift donors decreased 95%. Thus the ROI in sustaining donors acquired in 2006 was considerably greater than the ROI in single gift donors; this is a finding that calls for more research including randomised trials.
- **The benefits are immediate with new donors.** Contrary to negative assumptions about developing a sustaining donor base, the benefits are immediate and substantial. To make that assessment, our analysis included averaging income per donor for the two years preceding sustainer status and comparing it to the average revenue per donor in the year of and year after conversion.
- **A retained donor is an even better sustained donor.** Those who delayed their commitments to sustaining support for two years proved even more valuable in 2008 (the year of their sustaining commitment) than their 2006 sustainer cousins. The explanation may simply be improved fundraising practice. But a more likely explanation is that a donor who has already renewed support at least once has more value than one who has not. Conversion of retained donors to sustaining supporters may, however, affect cash flow in the year of conversion.

> *While the retained revenue of 2006 sustaining donors decreased 63% in the decade, the retained revenue of single gift donors decreased 95%.*

The chart (right) shows ranges of revenue-per-donor gain from before and after conversion to sustainer giving across multiple types of non-profit organisations with established, yet varied levels of sustainer giving programmes. As you will see, all experienced a substantial lift in donor retention and great revenue gains.

Our retained revenue data does not factor in expenses because achieving a consensus around calculations of direct and indirect costs to organisations can be challenging at best. We know, however, that how donors are acquired has significant impact on not only their first-year giving but their value to the organisation as well. In an ever expanding variety of fundraising choices—mail, telephone, email, web, radio, television, door-to-door and (what has come to be called) street fundraising—each has varying influence on the cost of acquisition, the size of initial and subsequent commitments, and the rates of retention.

AVERAGE TWO-YEAR REVENUE CHANGE PRE- AND POST-SUSTAINER CONVERSION

Subsector	Average Increase
Animal Welfare	90-300%
Environment	150-190%
Health Services	50-75%
Higher Education	150-300%
Human Services	200-250%
International Relief	70-160%
Public Broadcasting	50-90%
Public & Society Benefit	250-300%

In general, however, the costs of retaining donors can vary significantly as well, given that sustaining donors continue to provide uninterrupted support while single gift donors require re-solicitation, usually with several efforts each year.

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To the Cynics

While sustainer giving has increased and been proven valuable in some areas of the non-profit sector, its adoption has widely varied or lagged altogether in others.

Three common assumptions cited as barriers to building a sustained donor programme:

1. The need for a substantial investment in recruiting, such as expensive media purchasing or managing large groups of door-to-door solicitors
2. Negative impact on cash-flow
3. The presumption that sustaining donors are a less valuable class of donors

Our study of sustainer giving focused first on evidence to the value achieved in sustainer fundraising and to see whether or not presumptions were true. We examined 10 years of donor base data from multiple sustainer programs across most sub-sectors. Without a doubt, the data reveals that the barriers of investment and negative cash flow are manageable and the idea that these programmes provide little value is dead wrong.

> “*Encouraging donors to give sustaining gifts enables donors to plan their gifts with their monthly expenses and often results in a larger overall gift amount. The expense to the receiving organisation, if the process is streamlined, should be marginal. We implemented this into our reunion programme where, after two years, the returns are strong. Sustainer programmes have value for those willing to build and cultivate their donor bases.*
>
> *—Mae Parker, Director of Annual Giving, Grinnell College*

CONCLUSION: NEXT STEPS

Our first-phase reports tell us what happened with sustainer programmes in important terms of retained revenue and ROI, but neither how nor why. To answer those questions, we are proceeding with both written surveys and interviews with staff of collaborating organisations. Our aim is to get behind the data and document practices that have been and are proving most productive to long-term financial gains.

> *Performance tells us that sustainers are a blue chip asset class with great stability and long-term yield.*

While multiple variables affect the performance of sustainer programmes across non-profit sub-sectors, there is no reason to believe that a sustainer constituency shouldn't be pursued by all types of organisations. When viewing a donor base as the equivalent of an investment portfolio, both research and performance tells us that sustainers are a blue chip asset class with great stability and long-term yield.

Our research shows that while the results in this first phase of our study are not always typical, they are probable. Our examination consistently found that the variations in patterns we saw across organisations tend to have more to do with fundraising practices than categories of organisations.

There is much more to do, and we have only just begun! By documenting practices that produce tangible financial gain in sustainer fundraising and conducting randomised studies on technique, we will uncover the best practices to help you build a successful sustainer programme.

Keep an eye out for this insight in future instalments of this series.

> *We saw that sustainer donors were not just giving monthly for their convenience, but that their monthly giving represented strong engagement with our mission and work. We realised this was, in effect, a kind of planned giving and that it would offer a solid foundation for building mid-range and major donor support. Consequently, our retained revenue gain is extraordinary, in the range of 250% to 300% from sustaining donors.*
>
> *—Susan Paine, Director of Strategy and Analysis, Human Rights Campaign*

About the Blackbaud Institute for Philanthropic Impact

The Blackbaud Institute drives research and insight to accelerate the impact of the social good community. It convenes expert partners from across the philanthropic sector to foster diverse perspectives, collective thinking and collaborative solutions to the world's greatest challenges. Using the most comprehensive data set in the social good community, the Blackbaud Institute and its partners conduct research, uncover strategic insight, and share results broadly, all in order to drive effective philanthropy at every stage, from fundraising to outcomes. Knowledge is powering the future of social good, and the Blackbaud Institute is an engine of that progress. Learn more, sign up for updates, and check out our latest resources at www.blackbaudinstitute.com.

About Blackbaud

Blackbaud (NASDAQ: BLKB) is the world's leading cloud software company powering social good. Serving the entire social good community—non-profits, foundations, corporations, education institutions and individual change agents—Blackbaud connects and empowers organisations to increase their impact through software, services, expertise and data intelligence. The Blackbaud portfolio is tailored to the unique needs of vertical markets, with solutions for fundraising and relationship management, digital marketing, advocacy, accounting, payments, analytics, school management, grant management, corporate social responsibility and volunteerism. Serving the industry for more than three decades, Blackbaud is headquartered in Charleston, South Carolina and has operations in the United States, Australia, Canada, Ireland and the United Kingdom. For more information, visit www.fundraising.blackbaud.co.uk.

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