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Keywords: general rule of donor profitability, profit-based strategy and profit forecasting, change management, overhead trap, understanding costs

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Papers

Donor profitability measurement: Part 2 — Making donor-level profitability work

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Abstract

General profitability rule found: using further donor profit case studies, there is a repeating and broadly similar 'profit curve' across widely different charities and countries. It appears that there is a 'natural law' of profit distribution at work. This means that donor profit ability can be predicted and forecast with some accuracy.

Taking action: four approaches are suggested for the deployment of donor-level profit in practice: (1) large-scale cost reduction on loss-making donors; (2) cost reallocation to high-profit donors; (3) conversion, recycling and internal trade for loss-making donors and (4) much better accounting skills for costs in fundraising departments.

Resistance to change: however logical and 'scientific' the arguments for donor-level profit-based approaches, charities cling to old ways, despite their decreasing effectiveness, and are risk averse.

Proxy strategies: very few charities undertake profit-based approaches as suggested, but there is evidence of a proxy system: middle donors (also called intermediate or high-value donors). These, however, are not part of a true or thorough profit-based strategy and they serve to divert attention and muddy the water.

No overhead trap: critics of the donor profitability approach have warned that an 'overhead trap' exists for anyone slicing out large chunks of cost from the low end of a donor programme. Tests in this research prove that the overhead trap does not exist and is an illusion.

Future vision: at the heart of a profit-based strategy, we recommend starting with these words 'All donors are important to us, but we realise that some donors are far more important, financially, than the general throng... '.

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Outline

This is Part 2 of a two-part, research-based study of the profitability of individual donors to charities. Part 1 was published by the IDM in 2007.¹

Substantial improvements to profitability can be made

Part 2 examines some scenarios of what might happen if donor management is adjusted fully to take account of donor-level profitability.

Three more in-depth cases have been added to expand the research and to test and verify the theories in Part 1, which were based on a single case study. These three case studies are from three different countries and from organisations that have few similarities in cause or mission.

Part 2 will show that substantial improvements to profitability can be made with the application of simple techniques that are based on a clear understanding of donor-level profitability.

The resultant changes to the philosophy of fundraising and the way donors are managed will be profound however, and the shape of annual fundraising plans will look very different for any organisation that introduces donor-level, profit-based fundraising.

No results from charities employing the profitability techniques suggested by the research are available *at this time*, although this will change in 2008–2009. This is because in some charities, promising developments were stopped by staff departures in mid-project, and by other managerial and staff health-related discontinuities.

Introduction to Part 2

The research in Part 1 demonstrated clearly that a few donors in the case study ‘drove’ a disproportionately large percentage of the profit in an annual fundraising programme.

Further, we showed that a large proportion of the donor base was loss making or barely broke even.

The implications for fundraising strategy were clear, even stark: that the majority of donors, however loyal and keen to support the cause, were not paying their way and were making the organisations lose a great deal of money.

We remind readers at this point that we are focusing on cash donors, not donors to regular giving/monthly programmes, nor are we factoring in any cross-marketed money from legacies or other sources.

Potential outcomes

In Part 2 we project forward some potential outcomes of donor-level, profit-based strategies.

One swallow does not make a summer

In the single case study in Part 1, we showed that roughly half the donors in a given year were profit making, and half loss making.

But, can we make reliable generalisations from a single case study?

No. We — and most certainly you — will want to see more evidence.

It’s the same the whole world over

Further profitability research studies by the author show that, regardless of the nation, the currency, and local conditions for postage, banking, IT, the fundraising culture and so on, *similar general patterns apply in the distribution of net profit at the donor level.*



Figure 1: Distribution of net profit by decile for three additional cases

The examples in Figure 1 are of profitability ranges from three more, fully researched organisations, of widely differing causes and in three different countries.

Data

The three cases in Figure 1 are from the UK (one) and Europe (two different countries). None of the causes are remotely similar. Each charity has been in existence for 120, 65 and over 100 years, respectively.

Causes

The data is drawn from donors giving in 2005 and 2006. The numbers of annual givers are, respectively, 72k, 71k and 66k. The net profit in local currency (thousands) is, respectively, 818, 2,730 and 5,546. The causes are, in general terms, disability, overseas development and environmental protection.

The gifts data are for non-monthly cash giving with no legacy, corporate, reclaimed tax or other revenue than individual donors’ donations.

Understanding the numbers

Each percentage recorded is for the proportion of net profit held in each decile of donors. Overall net profit must total 100 per cent, but the presence of loss-making donors creates the negative percentage values.

Observations:

- Both cases 2 and 4 show that a very high proportion of net P is held in the top decile of donors.
- Case 3 has a gentler, less extreme distribution of net P.
- All three cases show that net P is distributed very unevenly across the range of donors.

Implications

Thesis examined

Our general thesis — that a few profitable donors dominate financial performance — and which we based on Case 1 holds true when Cases 2, 3 and 4 are examined.

To gain an overall view, we now add in Case 1 and show all four cases side by side in Figure 2.

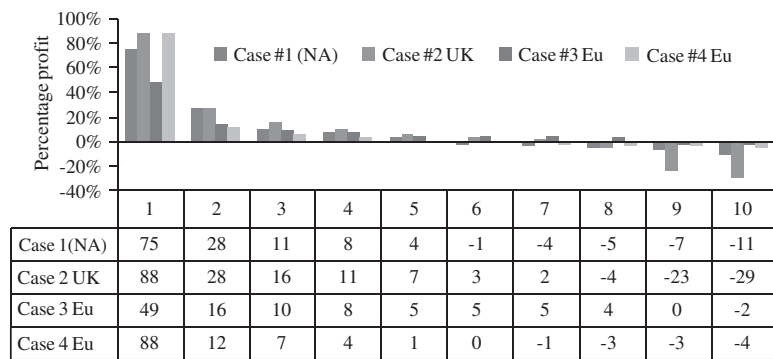


Figure 2: Distribution of net profit by decile: Four cases - NA (North America), UK and Europe

Observations:

- Cases 1, 2 and 4 show the same exaggerated distribution and huge amounts of net P concentrated in the top decile.
- The falling away of net P after the first decile is different in each case, but for practical purposes, we can say that *by decile 3 it is all over*, and donors in lower deciles are marginal in their impact.
- Case 2 has a huge proportion of net P in the first decile, but is noteworthy because there is such a deep drop into loss in deciles 9 and 10.
- Case 3 shows some variation, with ‘only’ 49 per cent of the total net P in the first decile; we know this data and the organisation that owns it very well, and we can only say that it has always been like this; nevertheless, case 3 can still say that 65 per cent of all its net P is concentrated in the top two deciles of donors; this is still illustrative of the main thesis: that a few donors dominate net P.
- What we are seeing here is ‘variations on a theme’; there are clearly the same common trends and ‘curve of profitability’ but with significant difference between individual charities.

‘Variations on a theme’

One more bar chart: the averaging of all four cases

Figure 3 has been compiled from the financial data for each organisation in the four case studies. The method has been to combine the actual financials in local currency for all four and then total their net revenues in each decile and thus provide an average distribution of net P across the four cases.²

In this way, we obtain a view of a generalised or collective group of net P distributions.

Observations:

- This combined net P picture shows the biased, exaggerated distribution of net P observed in individual cases.

Generalised group of net P distributions

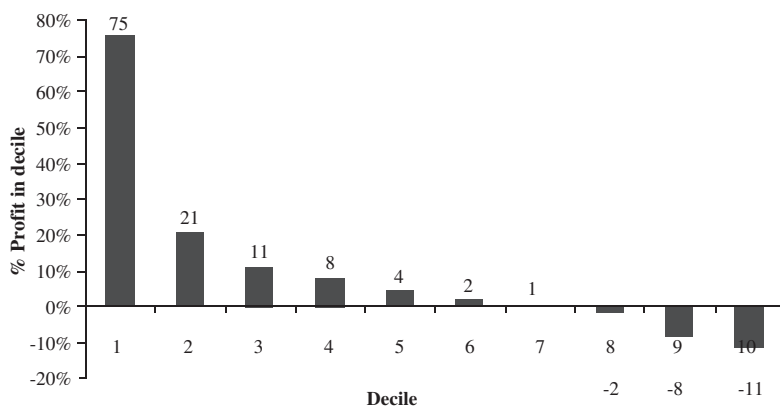


Figure 3: Mean net profit: Four cases, combined data

- We know that variations of net P distribution exist from the four cases, but we can say *for sure* that *the general thesis of a few donors dominating net P holds true*.
- Any nonprofit that has a DM programme with a substantial number of classic non-monthly donors can estimate, approximately, what the *profit profile* will look like, and without lifting a finger.
- One could say, with some confidence, that *any*³ nonprofit profile will fit a version of the aggregated profile shown above.

A pattern can be discerned

Natural law?

What we appear to have is the first glimmerings of a repeated pattern, quite possibly a natural law or rule of number distribution. Through these research studies the author can see that net profit ‘obeys’ its own, not-for-profit style, general rule of distribution.

This being the case, we can

- agree that, in the majority of nonprofits, the same general rules of profit distribution in cash donors will probably be found
- also assert that a fundraiser could, without any prior analysis, make some broad and reasonable assumptions about the expected distribution of net profit across a donor base of non-monthly givers.

Profit-based fundraising strategy

This would lead naturally to a *profit-based fundraising strategy*, at the donor level. This would be unusual — unique perhaps — in fundraising practice.

What do we *do* with the new insights that come from donor-level profitability? What are the options?

Can we now design a wholly profit-based fundraising strategy?

We believe the answer to be a firm ‘yes’, as long as an organisation keeps an open mind *and is amenable to change*.

The author sees the profit-based strategic options under four headings:

1. Reducing cost on low-profit/loss-making donors (to save costs).
2. Creating a dedicated high-profit donor management department, to exploit high-profit donors.
3. Alternative management plans for low-profit/loss-making donors (keeping donors but at no netloss acceptable cost).
4. A much better understanding of costs in fundraising departments (a better costs knowledge base).

Profit-based strategic options

1. Cost reduction or elimination

Sometimes seen as the most obvious knee jerk reaction to profit studies, this involves the cutting out of costs and nothing more. It is the simplest and least imaginative of the options (Table 1).

2. Dedicated management of high-profit donors

This requires resources to be transferred from the savings in (1) above and used to develop a high-profit donor management plan. This requires a separate infrastructure, more people and different products, communication channels, and working methods to those generally used in donor mass marketing (Table 2).

Table 1: Cost reduction or elimination

Action	Result
Cost reduction or total elimination for low-profit/loss-making donors	Spend less/nil on low-profit/loss-making donors and thus substantially reduce direct costs
Benefits	Drawbacks
Immediate ROI wins	Substantial numbers of donors left stranded or in CRM ⁴ limbo, with long-term consequences for the organisation

Table 2: Dedicated management of high-profit donors

Action	Result
Transfer of costs/resources saved in (1)	Changed use of resources for greater 'leverage' and effectiveness
Creation of a department or section to manage, retain, research, develop and steward ⁵ high-profit donors	Move the money saved to support enhanced marketing, retention, care, stewardship (etc) for high-profit donors
Benefits	Drawbacks
Focuses resources on proven high-value donors	Requires more people (often unpopular with Boards), makes fundraising operations more complex, potentially creates an elitist fundraising culture
Longer term major gifts research	Likely that some of the high-profit donors are major gift donors but unrecognised; possible that a major gifts operation can arise from the high-profit donor groups

3. Alternative management plans for low-profit/loss-making donors

With so many low-profit/no-profit donors remaining, the question must be addressed: how can we get more out of them? The ‘getting more’ has many possible directions. Some options are given in Table 3.

4. Better understanding of costs

Although placed at 4, this could easily be first on the list. In our experience, few nonprofits can call up their fundraising costs data quickly or accurately. The impression left is that costs are poorly understood — quite unlike gross revenues that are understood down to fine levels of detail (Table 4).

Table 3: Alternative management plans

Action	Result
Reduced cost fundraising operations (lower frequency, lower pack costs, simpler fulfilment, e-marketing)	Communication maintained but at no more cost than delivers break even; dialogue maintained, involvement retained
Conversion of low-profit/loss-making donors to monthly/committed giving schemes	Transformation of some low-profit/no-profit donors into profitable schemes
Research into the potential for low-profit/loss-making donors to be cross-marketed into other fundraising channels	Potential benefits for events, legacies, trading, e fundraising, volunteering, campaigning
Channels of acquisition examined for evidence of low-profit/high-profit donors	Potential benefit for better acquisition management
Benefits	Drawbacks
Taking all the above into account, the organisation maintains support from large volumes of donors without <i>losing</i> the huge sums on them that it used to; whether the conversion aims above can be realised is not clear or proven	Diversion of energy and talent keeping donors who may not be worth keeping — unless there are other reasons for so doing, for example; campaigning organisations

Table 4: Better understanding of costs

Action	Result
A deeper understanding of costs embedded into fundraising strategy	Profit calculation is made simple, transparent and that profitability measures become normal, everyday KPIs ⁶
A clear understanding of the minimum annual ‘ask’	Donors are prompted to make no less than one breakeven-value donation annually; donors who give below breakeven are recognised as such and treated differently (see 3)
The creation of a post of ‘fundraising accountant’ or some variation of title ⁷	Acknowledges that profitability as a method of working is crucial to good management
Benefits	Drawbacks
Places costs on a clear business footing and draws fundraising managers into a cost:profit culture; focuses on net revenues rather than gross (which is the norm in many organisations)	All nonprofits will benefit from a deeper understanding of costs, but it is unlikely that small/medium-sized organisations can afford or justify a fundraising accountant

Conclusions on courses of profit-based fundraising strategies

Losing the losers

- What a charity chooses to do with loss-making donors is mediated in part by its main market of individual donors and its fundraising culture.
- For charities with older constituencies (70 years plus, and there are plenty of such organisations worldwide), there is only limited scope to convert loss-making donors to low maintenance ‘e-fundraising’ channels; they are just not living their lives online yet; there is scope, however, to reduce normal postal communications costs to break-even and so not to lose the donors’ potential entirely.
- Campaigning organisations have a natural outlet for financial loss makers and we recommend an ‘internal market trade’ of unprofitable names with campaigns and any other interested departments who can cross-market and involve them; we also recall the old Time Life axiom that an ‘expired’ (subscriber) is always worth more than a cold name.
- Legacy opportunities are obvious if donors are of low value, high loyalty (tenure) and also old.
- One of the hardest acts we discern is that of letting the donors go; fundraisers don’t feel good about it; however, if charities progress and become more businesslike, some of that sentimentality may fall away.

Conclusions

Developing the winners and addressing ‘middle donors’

- There are organisational and philosophical changes required to make donor-level, profit-based fundraising take off in an organisation.
- We have been struck in this research (which spans close to three years now) by the difficulty that charities have in changing time-honoured methods of working; in more philosophical moments we have realised that these profitability research papers are in fact beckoning charities to embrace wholly alien ways of working.
- There are also political factors that work against change; in true Machiavellian style, change is very hard, and there are vested interests (eg the protection of high volume mail regardless) working against change.⁸

Middle donors

- There are precious few charities exploiting the profit model as described in this paper, but it is discernable to anyone with eyes that ‘middle donor’ development has taken off, albeit slowly.
- Seen in conference presentations worldwide and in job advertisements for dedicated managers,⁹ the middle donor is the intuitive (but not scientifically researched) version of the profitable donor, and recognition of them is not new to fundraising.

- Middle donors are those who have higher giving levels than ‘the average’ but are not themselves giving at ‘major gift levels’ — whatever that may mean to you — the financial boundaries are very fluid.
- Middle donors are *not* defined by net contributions but by gross value, and often by the dubious ‘average gift’ or by a total amount given in a time period.
- Middle donor initiatives, however logical or businesslike, often run into the same problems as profit-based initiatives — the requirement to change ‘how we’ve always done things’.
- Middle donors live in a kind of statistical no man’s land between the huge masses of general donors and major gift donors; as such they are neither one nor the other, and it can be hard, organisationally, for a charity to know what to do with them.
- Overall we see the water muddied for middle donors because there are no considerations of donor-level profitability applied to them.
- We hope that research such as this will clear muddled thinking and give middle donors a better chance for development; in studies by the author middle donors are often hidden segments inside the general mass of profitable donors; what is often missing from a charity’s fundraising strategy *is a clear plan about what to do with them*, leading to issues on product development and stewardship.

An objection to cost reduction approaches: the so-called ‘overhead trap’

‘Overhead trap’

Some fundraisers have told the author that, simply cutting out a large slice of unprofitable donors automatically causes a transfer downrange of overhead costs to a now much smaller group of donors. They assert that grave danger lies ahead in ‘the overhead trap’. They suggest that it upsets the apple cart and renders a profit-based donor management strategy ineffective, a victim of its own methodology.

We agree that the ‘overhead trap’ is a consideration and one worthy of discussion. Taken at face value it could be serious.

On questioning, people reveal that they themselves have never actually made the calculations about what happens in a cost reduction plan, but they are sure that their overhead trap assertion is correct.

Actual data and the simulation of an overhead trap

It helps to look at some real figures, ones that contain real data for salaries and overheads.

It was our observation two years ago, when assembling the proto-data for early studies, *that salary and overhead costs were quite low in relation to direct costs*. Recall at this point that we create three cost levels: C1, C2 and C3.

Data

C1: Direct costs, in the main variable costs (print, postage, fulfilment) but with some costs that were not wholly variable.¹⁰

Table 5: Change in gross revenue and net revenue for the scenario

	Status quo Decile 1–10	Cost reduction Decile 1–5
Direct costs	1,002,193	501,096
Salaries	75,000	75,000
Overheads (estd)	75,000	75,000
Total	1,152,193	651,096
Number of donors	33,133	16,570
Cost per donor	35	39
Gross revenue	1,767,720	1,413,739
Net revenue	615,527	762,643
Profit per donor	19	77

- C2: Salaries (of the fundraising staff whose work is directly accountable in the fundraising being measured).
- C3: Overheads: the share applicable to the fundraising department being measured — heat, light, management, finance services, insurance and so on.

Simulating the overhead trap

We can test the effects of the alleged overhead trap in Excel.

First, agree on the overhead figure (called C3). In Case 1, we were unable to get this from the charity: they just did not know what their overheads were nor the apportionments, so we have taken the C2 salary figure of 75,000 and said ‘it is equal to the C3 overhead’. There is a precedent for using the same figure for overheads as for salary: a case from Europe.¹¹

Secondly, agree how many donors will be cut out of the simulated fundraising programme. We have chosen to cut out the bottom 50 per cent, that is, all the donors from deciles 6–10. Readers may recall that decile 5 is the break-even point in Case 1, and that all donors from decile 6 onward are loss making.

Thirdly, use the case study’s direct costs pro rata on the top five deciles.

Fourthly, show the change in gross revenue and net revenue for the scenario, as in Table 5.

Observation and discussion:

- Column 1 is the status quo, but now with an estimated 75,000 C3 overhead figure applied.
- Column 2: *the overhead trap proves to be no trap at all*; even with an additional 75,000 C3 costs added, the removal of the five deciles non-profitable donors dramatically changes the P&L equation, *because it removes, at a stroke, all of the loss makers*.
- Under the all-donors status quo scenario in column 1, total net profit is 616k and the mean profit per donor 19.
- Under the scenario in column 2, with only the top five deciles in play, the net is 766k and the mean profit per donor 77.

Simulation of the overhead trap’s effects

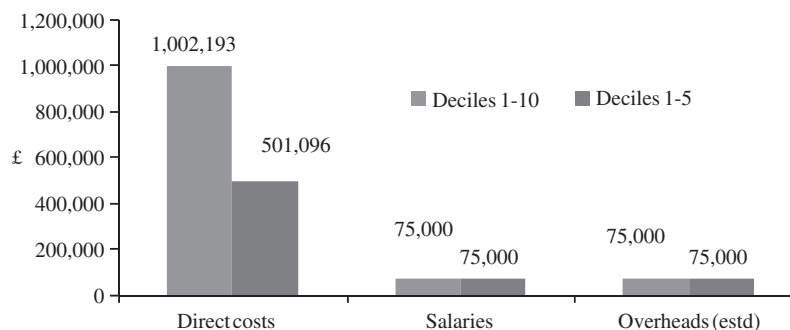


Figure 4: Relative sizes of direct and indirect costs

- This means that the happy charity deploying this scenario immediately raises its profitability 20 points, to 55 per cent (763k/1,414k) from the status quo’s 35 per cent, and in currency terms adds 147k of usable, spendable profit (763k–616k).

Why?

It seems too easy. The secret, however, lies in the relative sizes of the C1, C2 and C3 costs.

In this case — and in others we have examined — it is the direct costs that don’t just dominate but tower above the salaries and overheads.

One reason why nonprofits imagine there to be an overhead trap is that they do not know their actual costs. Thus they imagine, guess and assert rather than calculate (Figure 4).

Data

The bar chart in Figure 4 shows, for our first case study, the relative sizes of costs.

Observations:

- Removing the unprofitable 50 per cent of donors removes a very large amount of direct costs instantly.
- It follows, therefore, that the removal of swathes of direct costs more than cancels out the salary and overhead impact on ‘the bottom line’.
- Each charity should do its own internal calculations on how cost reduction will affect profitability; the cases in this study show there is a range of values of revenues and costs, and in our work across four countries for this article, we have assembled costs and revenues that are very different.

Conclusions

The general ignorance of what things cost seems to inflate fundraisers’ expectations, and overheads are not as large as direct costs, by any means.

The overhead trap is a false enemy, and should not deter fundraisers from profit-based fundraising strategies.

Relative sizes of C1, C2 and C3 costs

Overhead trap is a false enemy

Examples of the application of donor-level profit theory ... and the lack of them

Disappointingly, there are no examples of what charities did when they applied the profitability concepts illustrated in this research. They will come but it will take more time.

It is, however, enlightening to see the reasons why living examples are not available, the better to examine the forces ranged against 'change from the status quo', the effect of office politics and more. Here are some of the reasons why — and they are illuminating:

Case 1— N America: In the original research case, we stated that the then head of the agency would not allow the analysis to be shown to the client until the method of remuneration had been changed. The agency's remuneration contained, as is commonplace, a large measure of production-based profits, and large drops in DM volumes — which were rightly assumed to be a likely outcome — would reduce agency profit substantially. This remuneration trap is not unusual with agencies (regardless of what they might say in pitches).

Case 2— Europe: The fundraising manager of many years' standing was abruptly moved into a new role as part of new broom management change. All continuity was lost and the new job holder, who was not from a fundraising background, had no interest in profitability as conceived in this research. This was a case of 'not invented here' syndrome.¹³

Case 3— Europe: The fundraising manager suffered burnout (all too common) and left work for several months.

Case 4— Europe: Although more promising, the organisation had already started on what has proved to be a long, slow road toward its own profitability studies, but was more concerned with product profitability and channel profitability (which they found really hard-going). Until we did our work, the idea of donor-level profitability had not entered their minds. The individual donor net P model will, however, be incorporated in plans but they will not see application until 2009.

New cases: Other charities employing profit-based methods are in the works, but the results will not be seen for some months, and in at least one case there will be no permission given to the author for publication, however anonymous, for what the commissioning organisation hopes will become a secret weapon of fundraising growth.

Failed attempts: Where the author has failed to persuade charities to consider donor-level profitability methods, their reasons have been enlightening.

The most powerful reasons for a rejection of the donor-level profitability strategy have been because it requires cherished viewpoints to be changed, working practices to be greatly altered and people's jobs to change. And there is that common human irrational trait that, *somehow, the methods of yesterday that are now failing, might just, perhaps, somehow — with a miracle — succeed.*

Finally, there has also been a clamour for — you've guessed it — case studies, most usually expressed by the words, 'Show us the results and what have other charities done' .

Such is the lot of the researcher and the provider of new visions.

Overall summary conclusions

Future directions

We know that what we have researched — and so painstakingly — is on the right track. An internationally renowned figure said to the author recently that donor-level profitability was ‘So obvious when you think about it... but no one does’.

Vision: We look forward to a time when donor profitability is understood and accepted, and the mantra of fundraising strategy contains some of these terms:

‘All donors are important to us, but we realise that some donors are far more important, financially, than the general throng. From now on, therefore, all our relationship-building activities in individual fundraising will be driven primarily by considerations of profitability, including, for the first time, donor-level calculations. This will be part of a new strategic realisation: that it isn’t the volume of donors that counts, it is the net margin that matters’.

Technical considerations: What IT changes are needed to support donor-level, profitability-based fundraising?

IT changes needed

Life could be made easier if fundraising database systems were configured to take costs data to be matched alongside revenues. The irony is that some are and have been for years. The world’s best selling package, The Raiser’s Edge (<http://www.blackbaud.com>), has contained within it, since the first stuttering Windows 3.1 version, cost tables so that items of fundraising cost can be assembled against campaigns and thus ROI figures obtained as part of normal database activities. Of course, these ROI figures are at the campaign level, and do not show individual donor-level profitability.

Other IT vendors have built in costs to their database systems, both in bureau/outsourced offerings in Canada and Europe and in packaged solutions. These too, however, also focus on the campaign and not the donor. *But if the tables for data have been built and allocated to campaign costs, it cannot be a difficult matter to link costs to donors, since they contain in each transaction line a common field: the campaign code.*

We foresee a time when fundraising database systems can return ‘at the press of a button’ a full profit profile of every donor, and build a donor-level P&L account. If this is done with care and forethought, then powerful alternative views of profit (by channel, by product) can be supported with ease. All it takes is an initiative by a software firm or a demand by a big client to make it happen.

Financial and accounting considerations: There is a tremendous need for better liaison with the finance department and the provision of faster and more accurate costs. To repeat, costs often take a long time to obtain, or cannot be obtained at all.

Accountancy is a well-travelled profession and the establishment of coded costs centres in accounting systems is older than IBM. The careful allocation of costs to activities and donors is not a hard task in theory.

The model proposed in Part 1 of this paper has met with some criticism of methodology, and an alternative view has been suggested: the creation of a P&L account *for every single donor from cradle to grave*, with annual costs applied to ALL donors, not just the ones who respond in a year, is the method we favour.

Resistant to this idea at first, the author accepts that it is a valid, and in some ways a truer, picture of the performance of donors as a whole.

Taken as a whole, there is *a need to become more accountant-like* in creating insightful, profit-based reports for fundraising managers.

Managerial arguments

Managerially there is still strong conservatism and adherence to old and trusted ways, even when these are shown not to work. For example, in one international organisation with top management headquartered in the USA, the newness of the ideas and the threat to established ways of fundraising, even when those mass market, 'slash and burn' fundraising ways could clearly be seen to be working far less well year on year (falling profit margins, high rates of attrition), provided a 'No thank you!' to profit-based developments.

It seems strange that such obvious benefits are still considered to be of too high a risk to 'mess with' the established methods of fundraising.

But it is not all closed minds. In Part 1 we quoted a large charity in the UK who said, 'you're asking us to change the way we've always done things'. Ironically (and coming as a pleasant surprise), after Part 1 was published and digested, this same organisation came to the author and offered an immediate contract to work on a plan for donor profitability. What made the difference was the presence of a published, peer-reviewed and reasoned article, and the arguments made on paper, with proof, and not a 45-minute sales presentation.

Overall, however, we are in a situation where the donor profitability approach is little known, radical, and perceived as unkind to donors, allied with a whole raft of reasons that rationalise the decision not to proceed. But today's edgy idea is tomorrow's orthodoxy, and we anticipate change.

Research and analysis of high- and low-profit donors

A natural question that comes up in donor profitability work is, 'are high-profit and low-profit donors in any general way different from each other? And if they are, are the differences significant?'

We cannot offer much evidence. The questions are most interesting but they are outside our scope. We know that a simple analysis of profitability using external *demographic* systems based on the UK census and its many overlays, using the postcode as the link, shows little differentiation between the high P donor and the low-profit donor. We also know that in *life stage* terms there is little difference in the high and low-profit donor.

Clearly there *must be* external defences between high- and low-profit donors. At first glance, and using computer-aided analysis using

packaged demographics, we cannot find more than marginal differences and none that can be exploited to find more ‘good’ donors. It is possible that the differences are in the donor’s hearts, not their wallets or their demographics, but this is for others to investigate. It would be advantageous to research in focus groups or by wealth identification (as used routinely in the search for major gift prospects) what salient differences are to be found between high- and low-profit donors.

Forecasting: Can we build profit-based forecasts that hold up to scrutiny?

We have said above that profitability studies across several organisations show all the appearances of *a general profit distribution rule*. This being the case, we can say with some certainty that profitability can be predicted and estimated quickly and without huge technical or time investments.

We also know (though it is not discussed in this paper) that donor retention rates¹⁴ can be tracked with some accuracy, and that forward predictions of next year’s donor numbers and their likely donation values can be made.

It follows, therefore, that a ‘profit predictor’ that calculates the net spendable revenue is achievable. Many readers in the senior ranks of DM for charities will already be using some sort of budget tool/scheme/system to do something similar.

We conclude, therefore, that a profit forecast can be built with relative ease.

And finally

The scope to transform fundraising profitability performance is within easy reach of any charity that is willing to embrace change.

The obstacles to such easy and, it has to be said, logical change are largely behavioural and psychological, both for organisations collectively and individual members of fundraising teams.

Charities and agencies find they are used to (and comfortable with) the status quo, even when it fails to produce growth, and is, in some cases, actually harming the organisation as old methods fail to deliver today what they used to years back.

The search for the ‘new fundraising paradigms’ has been so often talked about that it has become a clich . But here we see a real opportunity for a paradigm shift.

It is all out there, waiting for the brave experimenter.

References and Notes

1. Sauv -Rodd, J. (2007). ‘Donor level profitability’, *Journal of Direct, Data and Digital Marketing Practice*, Vol. 9, pp. 47–66.
2. Just in case readers wonder if the maths-challenged author has simply added together percentages and divided by four, we hasten to reassure that we have not; the averaged working of the four organisations is achieved by combining the raw numeric data and assembling a true composite picture.

Scope for transformation of fundraising profitability performance is within easy reach

3. We exclude hospitals and universities based on our experiences in Canada, where donors giving five and six figure sums to annual funds were not unusual.
4. CRM@ customer relationship management a.k.a. supporter relationship management (SRM); the planned communication for relationship building over extended time periods.
5. Stewardship: has different interpretations according to what side of the Atlantic you fundraising on; the author chooses to define stewardship in this piece as the careful and frequently one-to-one relationships with high-value donors.
6. KPI: key performance indicators, which should be goal-oriented, focus on critical success factors (CSFs), are measurable, are comparable (internally/externally), are timely (for action to be taken); general approach is that: $CSF+KPI+Target=GOAL$.
7. Fundraising department accountant: some large UK organisations have a post that, though not named as such, performs many quasi-accounting functions.
8. 'It must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order...' from 'The Prince' first published 1515.
9. The UK arm of Action Aid comes to mind in particular.
10. For example, the creative costs are the same whether a campaign mails (and it usually is mail) 100,000 donors or a reduced 50,000 that omits loss-making donors; likewise the in house database costs would be unchanged regardless of the size of the campaign activity.
11. Precedent for using C2 as a proxy for C3 costs: we found in a European case that C3 and C2 costs were close in size, not exact to be sure, but also not orders of magnitude different; we would have liked to take actual C3 costs but, at the risk of over-repeating, such costs are often hard to get.
12. http://en.wikipedia.org/wiki/Not_Invented_Here; Not Invented Here (NIH) is a term used to describe a persistent sociological, corporate or institutional culture that avoids using already existing products, research or knowledge because of its different origins. It is normally used in a pejorative sense.
13. Donor retention rates can be calculated using specialised audit software that the author mention in Part 1 of the paper; there is an SPSS-based suite that takes in raw data, segments and segregates into cash givers, monthly givers and (a few) hybrids; the 1-2-3-4 and 5-year retention rates can be calculated historically and used to project outwards one to three years; adding profitability to the maths would forecast net profit.