

A model for strategic decision-making in supporter marketing

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Introduction

Database marketing to supporters¹ is a relatively new discipline within the marketing framework. Many organisations (both for profit and not for profit) have found database marketing to be a powerful approach to acquiring and keeping supporters, by directly creating relationships with identifiable individuals. The strategic options appropriate for database marketing are not the same as for general marketing or management. Option generating models such as the Ansoff matrix or the Boston box provide database marketers with some ideas but they do not give comprehensive coverage of the range of options available. This paper sets out a strategic model for option generation which has been successfully used with a spectrum of commercial and non-profit organisations.

The strategic model

The model is essentially a decision tree and is presented schematically in Figure 1. At the top of the tree is the goal of all marketing: to increase the value of that database to the organisation. This value can be measured in financial terms or non-financial terms. In most organisations profitability is a highly relevant concept (though you may not want to use such a coarse term with your trustees). This model outlines three broad objectives which can increase profitability: increase the size of the supporter base; increase the value of each supporter and cut costs. For the sake of simplicity this paper will be using the blanket term 'supporter' to include members (including of a trade association), customers, donors, those who buy good or services, those who campaign and those who support in any other way.

The very first decision a non-profit must make is whether to use database marketing and what to expect from it. There is a constant stream of newcomers to database marketing, whether as whole organisations, divisions or products, and many have targets that expect too much too quickly. One recent development is the recruitment of campaigners who are then converted at a later date to giving as well.

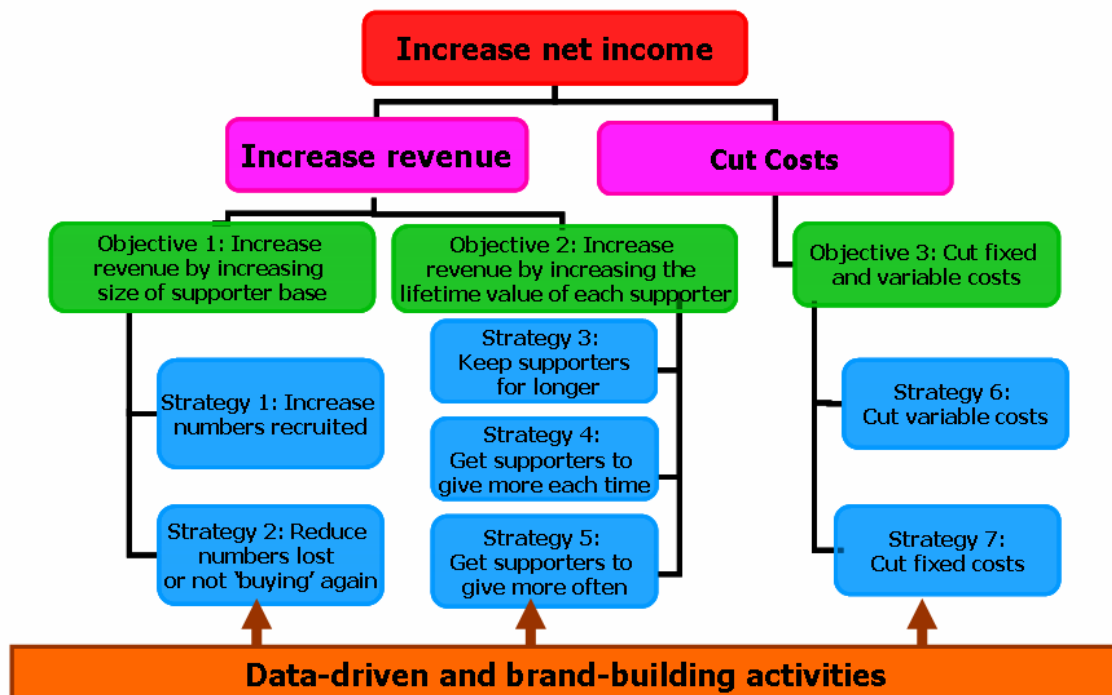
When organisations enter the database marketing arena for the first time, they usually follow these three objectives sequentially over time. At the beginning they have to build (identifiable) supporter numbers, then increase each supporter's worth and then work to reduce costs while maintaining income. While the objectives can be taken as a development sequence, they are also choices open to any marketer at any point in time, as are the strategies within each objective. Many database marketers instinctively opt for increasing the size of the supporter base as their top priority. While the size of a supporter base is important, it is all too easy for quantity to become more important than quality.

There is a relatively low profit, if any, during the period in which the database is being created or increased in numbers. Once a critical mass of supporters has been reached, often when the fixed costs of any activity can be amortised across enough supporters, it is appropriate to start increasing the lifetime value of each individual supporter in parallel with increasing supporter numbers. The need for a critical mass of supporters is particularly important when increases in lifetime value are likely to come from segmenting supporters in order to make targeted offers or products.

¹ In this report we use supporter as a blanket term to cover donors, members, customers, campaigners and all types of support.

The third objective of cutting costs is obviously important at all stages of database marketing. But it is once the success of supporter recruitment and growth in lifetime value have been achieved that cost cutting becomes the primary profit driver. If cost cutting is made the primary focus too early it can often mean the stifling of innovation and activities that are distorted by a desire to drive down costs. Once the critical success factors in a database strategy have been established then costs can be successfully cut without jeopardising income.

Figure 1: A model for strategic-decision making in supporter-based marketing



Two techniques run through all of the strategies outlined in the model: brand-building and data analysis. The success of any of the strategies can be greatly increased or reduced depending on the strength of the brand being marketed and the competence with which data has been used to drive product development, audience segmentation and the like. It is all too easy to see brand-building activities as being at odds with database marketing. The reason for this is that too much brand advertising refuses to focus on the needs of the supporter and address them appropriately. Yet within every database marketing activity an image and a perception (and hence a brand) is conveyed. The more powerful and relevant the brand being communicated the better the impact of that communication. A strong brand is not a substitute for, but an enhancer of, a supporter-focussed communication, since it increases the credibility of the message.

Data analysis and manipulation also enhance any of the given strategies. Techniques such as neural networks, regression analysis, cluster analysis and even simple cross-

tabulations can help make sure that the right message is sent to the right people. The most valuable segments can be addressed with the messages that are most relevant to them. Appropriate new products and messages can be developed using data analysis to drive product and service development forward. Most importantly it can make sure that those supporters with the greatest potential for increased lifetime value are given the greatest additional effort. It can help shift the emphasis from 'How can we sell more of this product?' to 'How can we meet the needs of this supporter group and so maximise revenue?'

Objective 1: Increase size of supporter base

Organisations starting in database marketing for the first time have to recruit new supporters (or individually identify existing supporters). Once these supporters have been recruited their actual or potential life time value must be increased to the point where it is viable to recruit more of them at a profit. Consequently the decision on whether strategic priority is given to increasing the supporter base or increasing the lifetime value is one for each individual organisation. Too many organisations make the mistake of recruiting names to a database when they really want to increase the average supporter lifetime value.

Strategy 1: Increase numbers recruited

Increasing the size of supporter base is one of the most obvious strategies that direct marketers can pursue. Increased supporter base size is achieved in two ways: firstly by increasing the numbers of supporters recruited and secondly by decreasing the number of supporters lost or not purchasing again.

There is neither space nor value in outlining the myriad of ways in which an organisation can use direct marketing to recruit supporters. However, two broad approaches can be identified to increase recruitment. The first is to broaden the range of recruitment channels used (doordrops, Internet, TV, etc.) and the second is to target new market segments (new parents, rich pensioners, gay men, etc.). Subsequent lifetime value analysis of these recruitment methods will help understand which produces the best supporters. Some supporters will prove to be worthless, and some will prove incredibly valuable. Database marketing allows effort to be concentrated where it is most effective.

Strategy 2: Reduce numbers lost or not buying again

One of the most neglected areas for many database marketers is to reduce the loss of existing supporters. Reducing attrition is much more than simply a vigorous lapsed supporter renewal programme; preventing loss of supporters starts at first recruitment.

Regular Questionnaire Feedback

Many organisations have successfully used questionnaires, not only as a means of improving their products and services, but also in giving the perception to supporters that their views are important. For example, Amazon.co.uk sends e-surveys to those buying products in its seller's marketplace. Questions may include:

- ♦ How would members improve the service they are receiving?
- ♦ What new products and services are supporters interested in?
- ♦ How many appeal mailings would charity supporters like to receive?

Sensitive Database Segmentation

Modern database technology allows vast amounts of information to be stored and analysed. This information should be used to ensure that each supporter receives offers that are relevant to them. For example, a Tesco's discount voucher off meat and poultry is inappropriate to a vegetarian. Making sure that the right offers go to the right people is an integral part of ensuring that supporters are not lost.

Segmentation also allows greater effort and expense for more valuable supporters; for example, use e-mail for less valuable supporters, post for more valuable ones, and telephone for those where the most income can be gained (or prevented being lost).

Telephones for Personal Contact

Telephones are an opportunity to make sure that supporters perceive your organisation as warm and human while giving an opportunity to catch any disgruntled supporters at an early stage. For example, how rare it is to receive a proactive phone call from an organisation soon after a major purchase! Yet the opportunity for increasing loyalty at this point is enormous. The caller might ask:

- ♦ Is everything satisfactory with your new membership?
- ♦ Have we done everything right on your catalogue purchase?
- ♦ Have you set up your virtual goat and got it to eat?

Make Apathy and Inertia work in Your Favour

Loyalty and inertia are opposite sides of the same coin. If people are loyal they stay with you because they positively like your service; if people are apathetic, they stay with you because they haven't the energy to go elsewhere. Inertia can be as powerful a way of keeping supporters as strong, active, loyalty. Fundraisers have found that standing orders and direct debits increase annual retention rates dramatically. Most charity supporters are happy to let donations go from their bank account, since it requires no additional effort from them whatsoever.

Let people change address very easily

Anybody who has ever moved house or moved office will know how hard it can be to get organisations to change their database records. Similarly anybody who has ever run a database will know how many sackfuls of returned posted comes back after every mailing. Websites like www.iammoving.com make the process of telling multiple organisations about address changes easier, but there are still lots of organisations who aren't on them – or simply don't appear to update their records.

Objective 2. Increase the lifetime value of each supporter

It is a statement of the obvious that database marketing should work to increase the life time value of each supporter. It is less obvious the ways in which this can be done. Our model outlines three basic strategies for increasing average lifetime value: keeping supporters for longer, increasing the value of each supporter purchase, and increasing the number of purchases made in any given time frame.

If these strategies are made to work then the consequence will be an increase in average lifetime value. However this has the potential to mask huge differences between supporters. Database segmentation should therefore look at ways of using the three strategies to move beta supporters to be alpha supporters and to move unprofitable supporters to go elsewhere.

Strategy 3. Keep supporters for longer.

The longevity of the average supporter is probably the biggest single determinate of total lifetime value. Many of the strategies for keeping supporters longer are similar to those for reducing the loss of supporters. However, strategies for reducing loss are often more associated with good supporter service, while strategies increasing the lifetime value are more associated with products.

Life Stage Products and Services

The financial services industry has developed a range of products over the last 20 years to match specific lifestyles. Bank accounts for teenagers and graduates, mortgages for pensioners, credit cards for charity supporters, and insurance policies for particular age groups are all examples of this trend. Products are tailored to meet supporter need more directly and so increase longevity. Charities have tried similar exercises with attracting school children but have largely failed to bridge the gap between the ages of 18 - 30.

Life Style Products and Services

Different kinds of people have different financial needs. Some people move house frequently, others hardly at all. Some people move jobs frequently, others stay with a company for life. Database marketers need to provide products and services that match different people's preferences. In fundraising some people like to give spontaneous donations while others prefer to join to become members. The effective database marketing organisation understands the different financial needs of its supporters' lifestyles and adapts its products and services to meet them.

Multiple Product Benefits

The more ways that a supporter can buy from an organisation, the easier it is for that organisation to retain the supporter and the greater the total life time value of that supporter. The irony is that few non-profit organisations reward their most loyal and enthusiastic existing supporters, let alone create tangible incentives for people to be multi buyers or to recruit new supporters in their own image. There is plenty of scope for charities to reward generous donors. For example, discounts off trading catalogues or offering discounts to those who purchase more than a certain level of conference places over the course of a year.

Strategy 4. Get supporters to buy more each time

The size of each supporter purchase is an obvious way in which companies attempt to increase lifetime value.

Incentives and Rewards

Providing incentives or rewards for reaching certain levels of purchase is commonplace throughout direct and face to face marketing. For non-profits the logic is no different. Charity trading catalogues provide gifts for orders above a certain level. Fundraisers incentivise large gifts with the additional value of tax effectiveness or the motivation of making a substantive difference.

Linked Services and Products

One of the most effective ways to increase a supporter purchase is to add in an extra service for a little extra cost. How many of us have been offered some kind of additional warranty or insurance after the point of sale? Credit card companies add in card protection, car insurers add in legal protection coverage and mortgage

lenders add in mortgage protection. While there is a fine line between genuine benefit and hard sell, there is no doubt that many companies have used this approach to successfully increase the average customer purchase value. For non-profits the line between genuine benefit and hard sell can be wafer thin and every organisation needs to decide what it is comfortable with.



Box 1: The Royal Institute of Actuarial Dentists²

Objective 1. Increase size of member base

Strategy 1. Increase numbers recruited

- The Institute has launched an off the page ad campaign in trade media offering a facts and figures booklet to gather names of potential members.
- A telephone campaign to existing members offering a reward for member get member is being piloted.

Strategy 2. Reduce numbers lost or not buying again

- Database analysis has shown that a large percentage of members in the age range 25-34 are being lost, so a leaver's questionnaire has been created.
- A health insurance product has been created for members as research has shown health worries due to stress are a major worry for people – this is a member benefit designed to reduce member attrition.

Objective 2. Increase the lifetime value of each member

Strategy 3. Increase the number of member purchases

- Direct debit mandates are the key tool for increasing member longevity. On average members with direct debits stay 3.2 years longer than those who renew annually. For this reason direct debits are incentivised with a £10 annual discount (they also cost less too).
- All members are allowed to choose which publications they receive, for example, the magazine, the catalogue and so on. Database analysis showed that frustration with unwanted mailings is a major cause of attrition.

Strategy 4. Increase the value of each member purchase

- Incentives/discounts have been used to encourage multiple purchases of conference and seminar places.
- All purchase opportunities are accompanied by a donation opportunity for the benevolent fund – with an average of 14% of members making a donation.

Strategy 5. Increasing the frequency of members' catalogue and conference purchases

- The average member purchase has been increased from 1.5 a year to 2.1 a year through the introduction of tiered discounts on conference and catalogue purchases. Members also get discounts that non-members do not (of course).

Objective 3. Cutting costs

Strategy 6. Cutting variable costs

- Careful database analysis has been used to reduce mailing volumes while maintaining response rates.
- A print buyer has been employed to competitively tender print services.
- Negotiations with a bulk mail carrier have secured a 10% reduction in charges for additional planned volume.

Strategy 7. Cutting fixed costs

- Members can change their own address details online. This has resulted in a restructuring which has reduced administrative support by 25% in the member care team.
- Initial telephone responses to advertising have been outsourced and the in-house call centre made redundant.

² The two case studies presented in boxes 1 and 2 are based on fictitious organisations.

Strategy 5. Get supporters to buy more often

Repeat purchasing is most usually increased by persuading supporters to switch some of their purchases from a competitor rather than to make purchases that they otherwise would not have made. This means that for some products and services it is very difficult to increase repeat purchases (e.g. mortgages and pensions) while for others it is much easier. For example, credit card purchases can be increased using a campaign to promote credit cards over cheque; shopping at a particular retailer can be encouraged by creating a loyalty card; and cars can be changed every 2 years, rather than every 3 years, by creating a targeted campaign. We have identified two ways in which nonprofits can increase the frequency of purchase.

Rewards for Loyalty

Database marketers are increasingly using loyalty schemes to maintain the loyalty of supporters who might otherwise use another supplier. The Tesco's Club Card is designed at least in part to keep people using Tesco's rather than Sainsbury's or Asda. Guinness and Glenfiddich have both successfully attempted to keep their supporters to stay loyal to their product as opposed to other kinds of alcoholic beverage.

So how does a non-profit provide a reward for loyalty? One simple answer is to tell people that they are loyal. My mother's database record at Oxfam shows that she has been a donor to Oxfam since 1964 when she made a donation of 28p (it looks like a weird amount, but it was probably a top up donation to a purchase from the trading catalogue). I know this because I used to work at Oxfam. However, imagine how my mother would feel if she got a letter from Oxfam recognising that she had been a donor for nearly 50 years - chuffed!

RNLI recently adopted a similar approach recognising a number of its longer standing members and got a fantastic response. Another approach is to tell donors each time their giving goes past a significant threshold (e.g. £1000, £2000, etc) or to tell them how much their gift aid alone has raised.

Better, Faster, Friendlier Service

In the age of the internet people expect the service they receive to be almost instant. Purchases should be despatched in 24 hours. Telephones should be answered whenever they want to call. Every item should be in stock.

So when supporters come to interact with non-profit organisations do they see them in the same light as for-profit organisations? Research by nfpSynergy found that nearly 90% of the public agreed with the statement '*I expect charities to be professional and well-organised in this day and age*' and over 75% agreed that '*I expect charities to get my name and address right when sending me information.*'

So any non-profit organisation that has a reputation for faster, efficient service is likely to keep its supporters and also get them to buy more often – because buying is so easy and hassle free. This holds true whether it is a donation, a purchase from a trading catalogue, a place at a conference, or a membership renewal.

Box 2: Royal Children's' Cancer Society (RCCS)

Objective 1. Increase size of supporter base

Strategy 1. Increase numbers recruited

- The Society has captured the names and addresses of all people who contact HQ or regional offices and added them to recruitment mailings.
- The Society has launched a series of inserts piggybacking on opportunities presented by a deal with utility companies e.g. gas and electricity bills.

Strategy 2. Reduce numbers lost or not buying again

- Database analysis has shown that large numbers of supporters are lost due to a high level of gone-aways. A telephone helpline has been introduced to facilitate address changes and a set of prints are sent out as a thank-you to supporters for informing the Society.
- A 'welcome process' has been introduced for new donors so that they are aware of the nature of the RCCS's work and its breadth. This makes sure that fewer donors are interested only in a single aspect of the work, improving loyalty.

Objective 2. Increase the lifetime value of each supporter

Strategy 3. Increase the number of supporter donations

- Direct debits have dramatically increased the number of supporters staying over five years from 26% to 41%.
- The Society has given supporters the choice of how many mailings they receive, which has had the effect of reducing aggravation and donor fatigue.

Strategy 4. Increase the value of each supporter's donation

- The Society has introduced a scheme for high value donors whereby they are invited to receptions and given the opportunity to support particular projects.
- An incentive of a discount voucher for the trading catalogue has increased donations above £25.

Strategy 5. Increasing the frequency of supporter's donation

- In the last year supporters have been offered the opportunity to buy raffle tickets, take out an affinity credit card and join a branded committed giving scheme, all with the aim of increasing frequency of purchase and general loyalty.

Objective 3. Cutting costs

Strategy 6. Cutting variable costs

- A detailed analysis showed that the increased mailing segments have not yielded improved results but have increased costs, so the creative costs have been cut and the mailings simplified.

Strategy 7. Cutting fixed costs

- Introduction of the internet, email and the website has increased productivity and so less direct marketing staff are needed.

Objective 3. Cutting costs

As has already been suggested, the decision of whether to concentrate on cost cutting or on revenue generation is one of the most crucial decisions a direct marketer can make. It is often the character of the individual concerned which will determine the route chosen; in my experience the database marketer who is vigorous in the pursuit of cost cutting is rarely the great strategist for revenue generation. Any direct marketing team needs to decide on its own priorities and ensure there is a balance of skills to carry out both strategies when needed.

Strategy 6. Cutting variable costs

In organisational terms database marketing has the enormous advantage of being relatively high in variable cost. Salaries, fees, database and accommodation costs are small compared to media, print, postage and artwork. For one major charity the breakdown of costs was 10% fixed and 90% variable.

Costs can be cut by competitively tendering print or studio services, targeting more profitable segments of a supporter base, renegotiating media costs, and shifting internal fixed costs to external variable costs (e.g. response handling). The skill of the direct marketer is to know which costs are value-added services and which can be cut without diminishing the revenue of the activity.

The clear relationship for database marketing between expenditure and revenue means if revenue is not coming in as anticipated, expenditure can be reduced without necessarily shedding staff. Conversely if a programme is successful revenue can be increased rapidly. We know of one charity that added and implemented £500,000 of supporter recruitment activity in a matter of weeks. Adding stores to a charity retail chain, on the other hand, can take a decade and building up a community events team can also take considerable time.

Strategy 7. Cutting fixed costs

Cutting fixed costs is a much more difficult job than cutting variable costs. Fixed costs are usually staff, buildings, agency fees, hardware and technology. The reduction of fixed costs will often mean that staff must be shed or work capacity reduced. Cutting fixed costs, particularly in the form of staff is amongst the most drastic actions organisations can take. Not simply because often the short-term redundancy costs exceed the short-term savings, but also because the organisational knowledge and memory that is lost through redundancies can take years to rebuild.

Data-driven and brand-building activities

Two important cross-cutting activities run throughout all these strategies: great database analysis and great brand or reputation building. Better database analysis leads to better targeting for increasing donations levels; better reduction in attrition amongst those most at risk of lapsing; and better segmentation of mailings so donors or members get the most appropriate mailings. The importance of data analysis is no less when it comes to cost cutting.

Along side the rationality and clinical science of data analysis is the irrationality and art of reputation-building. Most people are not very rational when forming impressions of organisations. The images we have are often forged on a few critical early encounters. The tone of these will often set the impression and image of an organisation for years to come.

How to use this model

The framework of our model is presented in Figure 1. In the narrative we have outlined a variety of strategies and approaches that different organisations can use. These strategies are only intended as examples of how the model can work; many charities and trade bodies may use the options generated by the model to follow approaches entirely different from those we suggest. Box 1 and Box 2 shows some strategies that could be used in the trade body and fundraising arenas respectively. For the sake of example, we have attributed them to two fictitious organisations, the Royal Institute of Actuarial Dentists and the Royal Children's Cancer Society.

In real organisations the model can be used as a starting point for discussion about strategy. For example, the first step is to agree which of the limbs of the decision tree are priorities for action, and then brainstorm to agree on the different strategies or activities that could be implemented in each of the model's areas. Indeed a useful exercise for a database or direct marketing team away day would be to brainstorm each of the different strategies for action points and then use post-it notes given to each team member to 'vote' on which of the seven strategies has the greatest potential to increase net revenue.

This model represents an exciting and innovative way for database marketers to generate strategic options for their work. I have described in some detail the way the model generates different options, and how these can be developed in real organisations. Above all this model allows database marketers to ensure that they have systematically considered all of the strategic options open to them in developing and maintaining their relationships with their supporters.



nfpSynergy is a research consultancy for the not-for-profit sector. Our goal is to provide research information and knowledge to help non profits thrive. We do tracking research, focus groups and individual projects. We measure anything from effectiveness to advertising.

We run both syndicated monitors and individual projects for dozens of different charities, using a wide variety of research techniques.

We have also published a range of reports covering a variety of issues, which you can download from our website for free, including:

The 21st Century Donor

This report is the culmination of several years of work by nfpSynergy researching and understanding donors in a whole variety of guises.

The State of the Third Sector 2007

This is the first instalment of an annual survey carried out with Third Sector magazine, which will track the mood of the sector over time.

The 21st Century Volunteer

Our most downloaded report, which aims to help voluntary organisations understand the current volunteering environment and to anticipate how volunteering will change over the coming years.

Typical Young people – a study of what young people are really like today

Commissioned by the Scouts, this report is invaluable for any charities who work with young people.

Polishing the Diamond

Our popular and practical look at branding for charities. This was followed by 'Branding: the jeweller's story', which has more case studies and advice.

Mission Impossible

'Mission Impossible' brings together over 80 vision statements from a range of organisations in the charity and not for profit sector. We have added our own analysis and ideas on the way charities present their vision, mission and values.

nfpSynergy - our stakeholder syndicates

Our syndicated monitors provide lower cost, more frequent and more detailed research than any organisation could achieve by acting on its own.

The following are four of our most popular monitors:

- **Charity Awareness Monitor (CAM)** Nine times a year we ask 1000 representative members of the public about their awareness and understanding of charities. Over 45 organisations have signed up.
- **Charity Parliamentary Monitor (CPM)** MPs and peers are a key audience for many charities and pressure groups and our research helps establish how effective politicians think specific charities are.
- **Charity Media Monitor (CMM)** Journalists are gate-keepers to wider coverage of charities, so their opinions are critical to communications success. CMM provides a unique insight into the views of over 200 journalists hand-picked by subscribing charities.
- **Youth Engagement Monitor (YEM)** Young people (11-25) are a key group for many charities. YEM gives charities a cost-effective online insight into the way that charities are seen by young people.

nfpSynergy – our project portfolio

Projects arise out of the individual needs of organisations and so our response to each is different. Here are just two examples from our wide ranging project portfolio:

- **YWCA Supporter Survey.** The organisation was keen to gain a greater insight into its donor base, with particular emphasis on ascertaining what would increase the loyalty of existing donors. Particular emphasis was placed on gaining a deeper understanding of what type of work supporters felt most passionate about supporting; their comprehension of the work YWCA does and attitudes towards YWCA's communications.
- **Poverty in the UK for Save the Children.** In order to highlight publicly the issues facing families living in severe and persistent poverty and to enable Save the Children UK to make informed policy recommendations to the government, nfpSynergy was commissioned to conduct an original qualitative and quantitative research programme to strengthen its understanding of the lives of children and their parents living in poverty in the 4 UK countries.

For more information, visit our website at www.nfpsynergy.net