



Position Statement

Subject: The Future of Non-Profit Donor Prospecting
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Cost-effective donor prospecting continues to challenge non-profit organizations. New donor acquisition is vital to the sustainability of donor-based organizations but direct mail, although still the work-horse, is becoming more costly and generally seeing sagging performance. Other acquisition channels remain unproven or have barriers to entry that are preventing them from becoming as ubiquitous as direct mail.

We have reached a point in time where the non-profit community must search deep within to discover new solutions to perplexing problems. Foremost to this discussion is how we can continue to cost-effectively acquire new donors to support the vital role of non-profits.

Let's be clear—direct mail is not dead. But neither is it the untouchable darling it once was. Some may blame the current economy for recent underperformance but how many people believe we will return to the heyday of the early 90's or even of just five years ago? A rebound will likely occur, but to what level?

And all the while, costs of paper and postage—two fairly uncontrollable forces—are increasing steadily.

Smart non-profits who can rise above the daily grind and take at least a little time to focus on the future are surely trying to identify the next frontier for donor prospecting. Most likely the answer will not be a *revolutionary* approach, but rather an *evolutionary* one. List Services believes there is ample opportunity for email to play a key role in the future of donor/member acquisition. But for this to be true, we must plan ahead now.

Brief Status of Online and Email Fundraising:

Online fundraising has been hailed as the undeniable future for non-profits since the early 1990's. Every conference is filled with sessions about market trends, successes and new applications/approaches. Vendors selling email and other online services to non-profits abound. We even have a whole new generation of online activity called Web2.0.

But what happened to Web1.0? Was it really just establishing a website, accepting online donations, distributing a monthly e-newsletter, and perhaps sending a few donor email solicitations throughout the year?

In the opinion of List Services Fundraising, the future of online and email marketing is less about giving the channel a fancy new buzzword and a facelift than it is about developing actionable strategies that are truly delivering positive ROI in a reasonable time period.

Non-profits have certainly become more skilled, flexible, and attentive to cultivating online giving from their existing constituencies.

But still, online donations currently make up less than 10% of revenue for the majority of non-profits. There is no denying that it's a high-growth channel, but how much of that growth can be directly linked to marketing strategy versus the general acceptance by the public of doing business on the web?

And beyond improving donor retention and gift maximization, how will online/email really be used to bring aboard new donors?

List Services Fundraising agrees that a diverse channel mix is vital for increasing donor value. And we know that some organizations are having more success than others. But the vast majority of direct mail-based organizations who are also employing email/online tactics are struggling to quantify the measurable impacts of their marketing strategy on their final ROI.

Growth is good. Having the ability to truly *drive* your online growth is what will define the next generation of fundraisers.

Today, online donor prospecting is virtually non-existent in any manner that can be controlled or highly influenced by the non-profits themselves.

(A brief mention of social networking seems necessary since it is a vital part of the Web2.0 initiative; social networking is yielding some results as an engagement and awareness tool but when it comes to delivering a noticeable revenue stream, say 0.5% or more of an organization's revenue, there are not any successes to our knowledge.)

Is Online Donor Prospecting Succeeding? Simply put: No, not yet. At least not in any way that is scalable to levels that come even close to approaching direct mail's effectiveness.

Obviously organizations are succeeding at obtaining new donors via online channels in some instances. The Obama presidential campaign is a headline example and International Relief and Animal Rescue organizations have been particularly fortunate during disaster and crisis situations. However, despite their best efforts and good intentions, the word "fortunate" should be considered an intentional choice of words.

Yes, organizations have dutifully improved website navigation, keyword searchability, reached out to existing donors through email campaigns, and even conducted e-appends. But what *quantifiable* impact have these efforts had in capturing more new donors? If that disaster or crisis had not been the catalyst for donor action, how would they be viewing their programmatic success? Did they actually control their own destiny or just happen to be a beneficiary of world events?

Take health charities for instance. With an older (60+) donor profile, and no breaking news to drive donor behavior, their ability to conduct outbound fundraising via online channels is limited and growth rates have lagged behind other markets. Yet this is probably the largest sector of fundraisers in the US.

We contend that this is not just a factor of donor age (after all, seniors are the fastest growing adopters of internet use) but that it is also impacted by the limitations of non-profits to reach out to prospects and "trigger" action.

Our observation is that most organizations have found online prospecting to be one of two things to their organization:

- 1) A donor-driven decision that demands little interaction from the nonprofit other than being "in the right place at the right time". (ie. SEO, webpage functionality, etc).
- 2) A cumbersome two-plus-step process that involves first wooing the donor through non-solicitation activities and then attempting (with mixed success) to convert them to a donor through a mix of online and offline channels.

This two-plus-step process is not the cut and dry donation appeal pitch that most non-profits have become so adept at in direct mail. It is complicated, full of decision-points, and still uncomfortable for many organizations and fundraisers.

The silo-effect between fundraisers and marketing communications teams in many organizations has further increased complications and limited the success of this approach.

Taken together, these factors have caused conversion rates to be lower for many organizations than they would like and makes achieving a competitive ROI difficult in new donor acquisition.

To be sure, this is not the rule for all organizations. But for many in our experience it is certainly a common theme.

We think most would agree that it is not a viable strategic model to rely on waiting for donors to decide to give and then find your organization. There needs to be some “push” marketing employed. But non-profits continue to struggle with how to adjust to the “pull” nature of the online world from their “push” cultures of direct mail fundraising.

Perhaps it is time to begin looking to combine the two approaches. It is of course true that donors are demanding and gaining more control over the communication process and that non-profits can no longer simply spew the corporate mission and expect unquestioning goodwill and lots of donations. But that does not necessarily mean we have to throw up our hands and concede all control of the relationship. There is a balance to be found.

How is Email Prospecting Being Utilized Today? Email is the most obvious channel for online “push” prospecting. In the best-case scenario it is delivered directly into a person’s inbox (just like direct mail) and the timing, message, and call to action can be precisely controlled. This feels good, it is familiar, and we are mostly comfortable with it.

But government regulation (most notably the CAN-SPAM act and potential do-not-email legislation) causes perceived and real barriers to this simple method of interaction. And, prospects are flooded with emails so they may ignore (or worse, block) your prospecting messages. But the flip side is that they can also choose to “store” your email similar to how people keep those name labels forever in their top drawer.

So how is email prospecting being utilized today? There are three primary methods that List Services has employed or witnessed that comply with legislation and can be argued to be viable.

- 1) Partnering with third-party providers – the most familiar of these may be Care2. Care2 owns a large universe of opted-in constituents that they then deploy non-profit messaging to on a targeted basis. While there are several outreach options available, the most common seems to be a petition-based engagement approach.

Constituents take action on an issue by signing a petition and are then asked to opt-in to other similar organizations or subscriber-groups, or to visit the website of the petition-sponsoring organization. The petition sponsor then receives a guaranteed number of qualified email addresses based on the constituent’s reaction to the contact.

The positive is that this is a quantifiable, push-driven marketing strategy that can be directed toward targeted audiences. The negative is that, in our experience, conversion of these two-plus-step constituents can be difficult and the longer-term value of these warm leads is less than those acquired by direct mail or other means.

- 2) Chaperoned emails - Chaperoned emails are delivered by an organization with which the prospect already has an existing business relationship. In the non-profit world, this can mean that a non-profit e-mailer partners with either another non-profit or a commercial entity to deliver their message to a prospect audience. The partnering list owner essentially “validates” your non-profit’s solicitation by announcing their “approval” of the marketing message.

The positives are that you reach a presumably qualified audience (based on your partnering choice) that will open the email due to their existing relationship with the sender. The negatives include a labor-intensive partnering process, reliance on the chaperone’s delivery and reporting systems, potential content/message negotiations, and non-profits who are often hesitant to promote other non-profit causes to their donors even if they aren’t directly competitive.

- 3) Rented lists - It is possible to rent lists (although almost always from compiled or commercial entities). Under this scenario, the emailing non-profit provides artwork to the list owner or their manager and their message is deployed by the owner/manager and results reported back.

The positives are that you can locate a fairly large universe of email addresses and that those who market their file usually have solid delivery and reporting systems in place. The negative is that as with any compiled list, targeting is questionable and most non-profits have not found this to be a cost-effective way to reach new donors/members.

Overall, email prospecting is still a difficult and unproven territory compared to direct mail prospecting. Some of the causes are regulatory, others technical, and some are actually caused by non-profits themselves.

What Barriers Are Preventing the Expansion of Email Prospecting?

If you agree that any viable strategy for promoting online as a prospecting channel must include some sort of “push”- based contact strategy, and that email is currently the most familiar and approachable form of this, then the next step is to analyze the barriers to turning email prospecting into a successful acquisition medium.

The four primary barriers to email prospecting include:

- 1) CAN-SPAM regulation
- 2) Blacklisting/spam filters by ISP's
- 3) Consumer behavior
- 4) Lack of qualified email prospects

CAN-SPAM regulation: The CAN-SPAM regulations can be found at <http://www.ftc.gov/bcp/online/edcams/spam/rules.htm>

To our reading, the CAN-SPAM act of 2003 does not specifically prevent online prospecting for non-profits. It merely lays out the conditions under which online communications can be made to avoid being categorized as spam.

However, what CAN-SPAM has effectively done is to create an environment of fear among non-profits who have become wary of any email communications with non-constituents for fear of offending potential and current donors or inflicting punishment by the FTC.

Blacklisting/Spam filters by ISPs: From a technological standpoint, this is perhaps the most daunting of considerations for non-profits evaluating email prospecting. ISP's have great power over their customers and likewise they are highly responsive to customer complaints. Furthermore, their criteria for identifying spam is constantly evolving and changing – partly in an attempt to restrict true spam, and partly to thwart spam providers who are constantly working to circumvent their logic.

However, technological problems are manageable and solvable. Technological and dialogue solutions to this problem exist and will continue to improve. Non-profits should partner with highly knowledgeable vendors and/or develop the internal capabilities to navigate these challenges. Employing outside resources to deploy emails is a very good way to reduce the risk associated with having your organization's server or domain blacklisted. Outside organizations that rely on email distribution for their livelihood are highly sensitive to, and adept at preventing and handling, ISP blacklist issues.

Another solution is to register for a service such as GoodMail which endorses senders and has a higher likelihood of preventing blacklisting.

Consumer Behavior: As with any outbound marketing medium, it is possible for prospects to avoid hearing your message. Direct mail gets thrown in the trash, telemarketers get screened or hung up on, TV commercials get ignored or the channel changed, and email gets deleted, ignored, opted-out, or worst case, reported as spam.

Regardless of the channel, a small percentage of people will continue to get annoyed to a point where they complain, the largest percentage will simply tune out the "noise", and another small percentage will engage with the marketer's message and hopefully take action.

As fundraisers, it is not our primary concern to reach every possible ear or eyeball. We want to reach the most qualified ones and maximize our return on investment. From a consumer perspective, email as a marketing channel is not all that different from other channels. In fact, it is more highly regarded for information-gathering than any other medium.

Saturation is a concern for many non-profits who understandably don't wish to offend the public (their future prospect pool). They feel their message will be lost considering how much email people receive in a given day. But consider how this differs from direct mail. Don't we hear complaints and see proposed legislation for do-not-mail regulation every day? Does that change our impression of the channel to the point we abandon it? No—as long as the numbers play out and we aren't crossing any legal or ethical boundaries, non-profits are allowed to, and continue to, conduct business and new donor prospecting activities.

With the prevalence of Blackberries and other wireless communication devices, it could be argued that email is more likely to reach the prospect at a time convenient to them because they can choose that time. They don't have to return home to retrieve mail from the mailbox. It comes to them no matter where they are in many cases. It is true that many who use mobile email are younger than typical donors but this is not a rule, and will likely change over time as people grow up with wireless as a way of life.

Now is the time for non-profits to be thinking about the future in an actionable way that will be meaningful not just twenty years down the road, but three to five years or even immediately.

Lack of Qualified Email Prospects:

The issues confronted above: technological, regulatory, and consumer/perception all have solutions that can be implemented relatively simply once the basic problems are identified.

So that leads us to the most fundamental problem confronting non-profits today with regard to email prospecting – lack of qualified email prospects.

By “qualified” we not only mean targeted/receptive but also cost-effective or likely to turn a positive ROI metric in an acceptable time period.

Quite simply, non-profits need an email exchange/rental market similar to what currently exists for direct mail.

List Services Fundraising's Recommended Best Practices:

List Services Fundraising believes that non-profits should re-evaluate their management approach toward their email lists.

Of particular interest is the value that non-profits perceive in a constituent email address. Knowing that the online channel is quite small as a percentage of giving, even to house programs, why do non-profits continue to protect their email files with life and limb, while at the same time making their postal address list available on rental and exchange?

From a dollars and cents (or perhaps “sense”) perspective, those postal addresses drive the bulk of organizational revenue and are therefore significantly more valuable to the organization than email addresses.

We advocate a re-assessment by the non-profit community of the protectionism that has been afforded to email lists.

It has been well-established that renting and exchanging postal lists yields considerably more overall value to an organization than the perceived risk it poses. Exchanges and rentals are commonplace and numerous studies and tests have shown that these names are no less valuable to the non-profit whether they are shared or not.

It only makes sense that email lists will follow the same rules. And, if we have proven considerable overlap between organizations in postal lists (look at your merge rates) then we should realize that email addresses have similar overlap. These are not really “our” donors to protect. After all, if you have a postal address, it’s simple and legal to append an email address. Email is just another attribute we can know about a donor—and more importantly it provides a potential contact point that can be valued and utilized.

The most important thing non-profits can do today with regard to management of their email files is to immediately cease and desist from promising donors that they will never rent or exchange their email addresses. Even if you do not share email names in the near future, it is important that you refrain from making these unnecessary promises.

Of course donors need to be given the right to opt-out of email communications, and from email exchanges/rentals, just as they are with direct mail. But this current proactive promise of email protectionism will almost certainly be a major obstacle to fundraising in the next three to five years if organizations don’t rethink and revise these types of statements.

Once an organization has made such a promise to donors it is very difficult to change positions. But it is better to do it sooner than later—while you can still grandfather existing donors as well as acquire new ones without the same promised “protection”.

Taking the short-term protectionist viewpoint may be severely harmful to your organization’s ability to prospect effectively in the near future because it is likely that as organizations begin to form an email marketplace they will employ similar rules to the

postal list marketplace whereby those who don't contribute are charged a premium or excluded altogether.

It is reasonable to employ common-sense guidelines as to the sharing of email addresses, but the across-the-board protectionism that currently exists is short-sighted in our view. Non-profits need to prepare themselves for an era of increasing cost and performance pressures on direct mail. It may not be essential to revise policies and share email addresses immediately, but non-profits should consider their actions carefully to avoid backing themselves into a corner down the road.

Summary: In summary, there was a time when renting and exchanging postal lists was unusual and probably scary for many in the business. But over time, experience showed that this marketplace was a vital component of allowing non-profits to reach new audiences and sustain themselves.

As the fundamentals of direct mail slowly force non-profits to migrate marketing dollars to more efficient channels, the absence of an email list market is going to become a significant issue for fundraisers.

To be sure, creating an email list market is not going to solve all of the challenges we face. In fact, it may be a while before a full-scale email list market is available to capitalize on the opportunities presented by online prospecting.

But your organization can ensure its ability to adapt to the future by taking simple steps now such as removing blanket statements that promise email anonymity and protection to donors who have not specifically requested it. For those non-profits who choose to lead the way and gain competitive advantages, we recommend that you work with knowledgeable and innovative partners to establish a vibrant exchange/rental market for emails.

Our industry must always act ethically and hold our donors' wishes in the highest regard, but presuming to know their wishes ahead of time and without asking could present a significant risk to the long-term health of your non-profit.

We urge all organizations to discuss how you see the long-term acquisition marketing mix playing out and what role you think email prospecting will take. It's possible you may decide that email will never be a key prospecting channel. But if you do decide this, then you are left with two questions.

- 1) What will be the next promising avenue of conveying your mission to potential new donors?
- 2) How will your organization survive as direct mail focused donor acquisition becomes more cost-prohibitive?

If you do believe email will be a key component of the future of nonprofit prospecting, then how will you position yourself to maximize its potential and be on top of your game when the opportunity arises?

List Services Fundraising has provided our informed opinion and suggested guidelines for evaluation by, and the benefit of, the entire nonprofit community. We hope they will be taken to heart and foster a platform for dialogue and innovation.

If any reader would like to pose questions or discuss the content above, please feel free to contact List Services at info@nonprofit-lists.com.