

The logo for Target Analysis Group, featuring the word "TARGET" in a bold, sans-serif font above the words "analysis group" in a smaller, lowercase, sans-serif font. The text is contained within a dark blue oval shape with a white crosshair design.

TARGET
analysis group

2006 donorCentrics™ Internet Giving Benchmarking Analysis

By Helen Flannery and Rob Harris
Target Analysis Group, Inc.

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Overview

In December 2006, Target Analysis Group held a two-day forum with twelve major national non-profit organizations on the subject of online fundraising.

The purpose of the forum was to provide a collaborative environment in which non-profit organizations could learn from each other's experiences in developing a successful integrated online marketing strategy. Target convenes many of these forums every year, each organized around particular non-profit sectors such as health, the environment, and international relief, as part of the firm's donorCentrics service. The idea for a specialized donorCentrics forum focused on online giving had grown out of a conversation between Target and Donordigital about frustration among non-profits at the lack of proven best practices for online fundraising.

To provide a factual basis for discussion, Target provided participants with a set of reports that allowed them to compare the behavior and characteristics of their online and non-online donors. The report gave each participating organization quantitative information derived from Target's processing of giving transactional data – not anecdotal or solely self-reported data – so that organizations could benchmark their own program performance against that of peer organizations.

The reports presented the actual individual performance of each participating organization so that every organization could compare its performance to the other eleven participants and learn which programs had the most success in specific areas. These reports did not focus on internet giving operational metrics, such as email click-through or open rates; rather, they examined internet giving in the context of a primarily direct mail fundraising program, and how this emerging channel impacts donor value.

The Emergence of Online Fundraising

Most non-profits have well-established direct mail programs, with which they have been cultivating donors for decades. Non-profit organizations have honed these programs over the years so that direct mail practices are relatively efficient and well-understood.

Over the past several years, broadband networks, email, and the World Wide Web have grown rapidly and are now in wide public use. This technology has allowed non-profits to make major changes in how they coordinate with their activist networks and communicate with their volunteers, donors, and other constituents. As a result, and sometimes with seemingly little

effort, online giving has begun to account for a significant and rapidly growing portion of donations for many non-profits.

However, using the internet as a vehicle for giving and cultivation is still relatively new. Fundraising staffers seldom have more than a few years of online fundraising experience and there are not many proven best practices. Some organizations are unsure of the best way to start an internet program; others are already actively fundraising online but feel they have few ways to predict or measure the effects of their efforts.

In addition, there is a great diversity in how online giving is experienced across the non-profit community. Many relief and animal welfare organizations saw growth in online donations over the past two years due to disaster-related giving. Other organizations have active online programs for their advocates or subscribers and are struggling with integrating these existing networks with a fundraising program. Still others receive their online gifts primarily from events or memorials.

Vendors and service providers have been searching for ways to help organizations increase their understanding of online fundraising and to establish benchmarks for success. Several papers and presentations have been published over the last few years analyzing online fundraising. Most focus on internet user statistics and technique-specific performance indicators such as web page hits and click-through rates.

While these studies are important, there was also a need to analyze online giving in the context of an integrated fundraising program to learn how the emergence of this channel affects overall donor value, and how cultivation techniques within different channels can operate together to maximize return on fundraising investments.

Transforming the Data

Target Analysis Group and Donordigital signed up twelve organizations to participate in the first Internet donorCentrics project:

- Alzheimer's Association
- Amnesty International USA
- CARE
- Covenant House
- Defenders of Wildlife
- Earthjustice
- Humane Society of the United States
- Mercy Corps
- National Multiple Sclerosis Society
- National Parks Conservation Association
- Union of Concerned Scientists
- U.S. Fund for UNICEF

These organizations vary widely in size, in fundraising mission, and in their level of experience in online fundraising. Some have relatively large, well-established online giving programs and others have relatively small, fledgling programs.

All twelve participants transmitted their giving transactional data to Target Analysis Group, where it was transformed and standardized using common code definitions. Target also appended demographic measures to each data set at the household level. Organizations also answered a survey about online fundraising practices to aid in the group discussion.

Target then delivered a collaborative benchmarking report and an accompanying summary of discoveries. Because the analysis examined all aspects of the donor lifecycle, the amount of published data was substantial. Target developed a new series of in-depth color charts and graphs for this project which used advanced visualization concepts to convey this information clearly and intuitively.

The Collaborative Benchmarking Meeting

In December 2006, Target Analysis Group and Donordigital facilitated a two-day collaborative benchmarking meeting for online fundraising staff members from all project participants.

Carol Rhine from Target first presented a review of the behavior, demographics, and relative value of online donors that the data had revealed. With this information as background, participants then engaged in a wide-ranging discussion of practices. Organizations talked about topics such as how to build up e-mail address files; the degree to which non-profit online fundraising seems to be tracking online buying behavior; the integration of online fundraising with direct mail efforts; and the interaction of online giving with other types of internet interactions such as advocacy or event participation.

Nick Allen from Donordigital led a particularly fruitful discussion in which each organization drew the organizational structure of their online staff and how they fit within the organization, and then presented it to the others. This exercise made it clear that, in the absence of proven methods, non-profits are trying a wide variety of creative ways to organize their online marketing staff. Sometimes online staff is housed in communications, sometimes in development, sometimes in a separate department; at times staff members work solely on online marketing and sometimes the online and direct mail staff are the same people. Several participants who felt that their setup was not working as well as it could were able to get ideas for change from those who were more satisfied with theirs.

At the end of the forum, organizations in the benchmarking group said that they had learned a great deal, both from sharing their own experiences and ideas and from learning from others what has and has not worked for them.

Key Findings from the Online Giving Data

Please note that all references to years within this analysis are based on a July through June twelve-month period. For example, a date of “2006” or “June 2006” would include giving from July 2005 through June 2006.

Overview

The Target Analysis Group Internet donorCentrics analysis of transactional data showed that online donors are a potentially very valuable new constituency for non-profit organizations, and that they behave differently from traditional direct mail donors.

Online donors are much younger and have higher incomes than direct mail donors. They tend to join at higher giving levels and to have higher lifetime giving.

However, online giving is not currently well integrated with direct mail efforts in a cohesive, productive way, and there is evidence that online donors’ higher giving dollars may mask issues with cultivation and renewal.

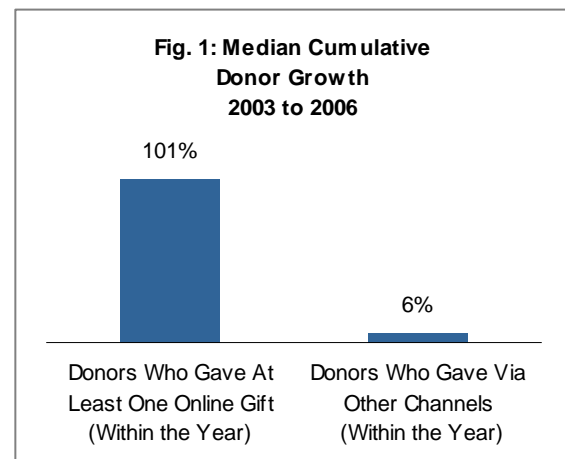
Online donor numbers have increased rapidly in recent years

Online donors currently make up a relatively small proportion of the overall donor file at most organizations. For 10 of the 12 organizations participating in the collaborative project, fewer than 15% of their 2006 donors gave online. 4 of the 12 participants had fewer than 5% of their donors giving online.

Almost all programs continue to receive most of their revenue from direct mail. For 10 of the 12 participants, 50% or more of annual revenue is from direct mail.

However, online donor populations have been growing quite rapidly in recent years. Median cumulative growth in online donors has been 101% over the past three years, compared to 6% growth for non-online (primarily direct-mail) donors over that same time period (see Fig. 1). Granted, online donor numbers are small, which can make for dramatic percent changes, but it is still a substantial increase.

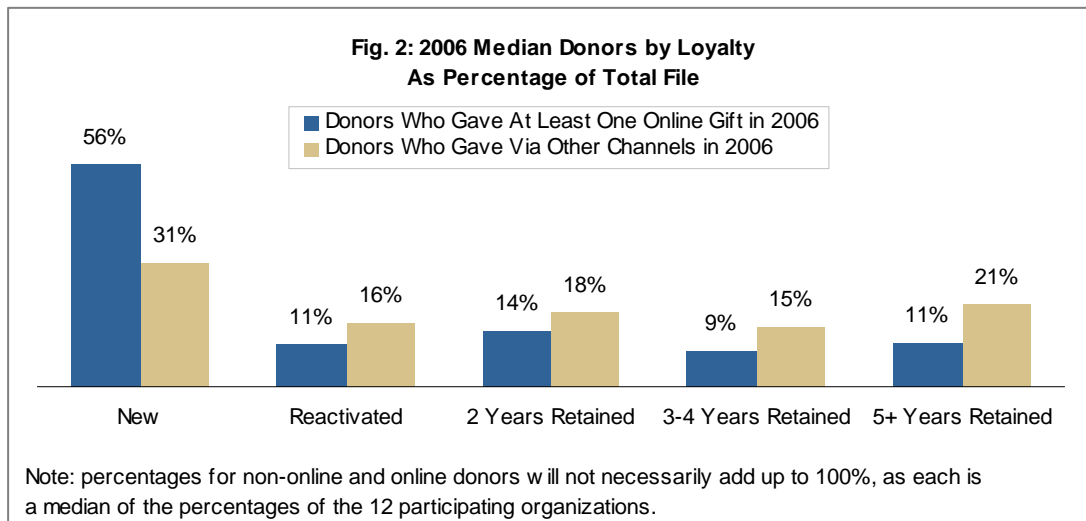
In particular, relief and animal welfare organizations saw significant spikes in online donations in the past two years due to tsunami- and hurricane-related giving.



The internet is serving primarily as an acquisition source

Acquisitions account for the majority of online donations for many organizations. For 9 of the 12 participating organizations, more than 50% of the online donor population was new in 2006. In contrast, fewer than 40% of non-online donors were new for all 12 participants.

Non-online donors are spread far more evenly across loyalty populations (new, retained, reactivated) than online donors. For all 12 participating organizations, online donors tended to be much more concentrated in the new donor population. A median 56% of all online donors were new in 2006 (see Fig. 2).



Traditional direct mail donors already on the file do not tend to start giving online. In fact, the longer a donor has been giving to an organization, the less likely they are to start. For 11 of 12 organizations, fewer than 5% of the donors acquired before 2001 gave online in 2006.

Online donors make up a significant portion of acquisition donors for most organizations. A median 16% of all donors acquired in 2006 were online donors. And online gifts make up an even greater portion of acquisition revenue for many organizations. In fact, for half of the project participants, online gifts accounted for 30% of all their new revenue in 2006.

Direct mail was the most dominant acquisition channel for almost all organizations, with the internet as the second-most dominant identifiable channel.

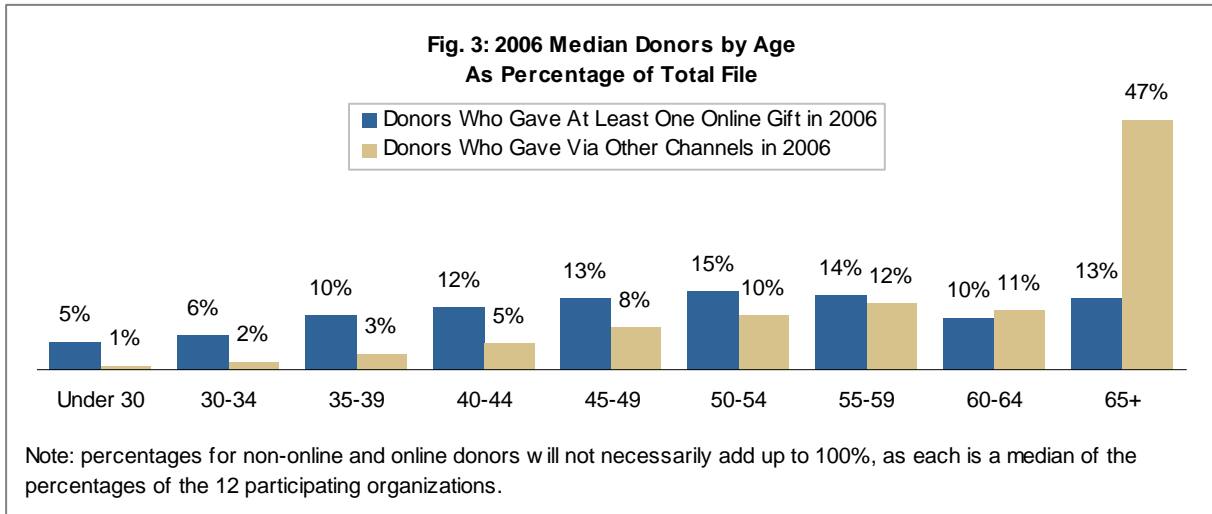
Online donors have a very different demographic profile than traditional donors

Online donors are much younger and have higher household incomes than donors who do not give online. In this respect, they are a particularly different set of constituents than direct mail donors, who tend to be older and to have lower household incomes.

Online donors tend to be spread relatively evenly through all age groups, while non-online donors are heavily concentrated in the 65-and-older age group. For the organizations that

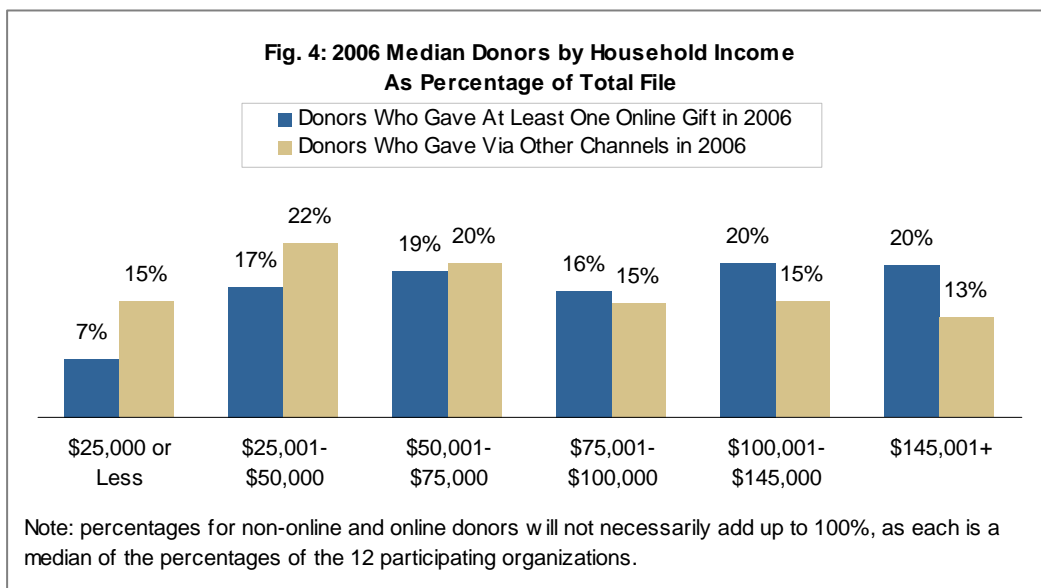
participated in this project, a median 13% of their online donors were 65 or older in 2006. In contrast, a median 47% of non-online donors were 65 or older (see Fig. 3).

A median 5% of online donors were under 30, while only 1% of non-online donors were in that age group.



Given the concern that many organizations have about the high average age of their donors, this is certainly an important finding.

Although the trend is not as striking as that for age, online donors tend to be more concentrated at higher household income levels than non-online donors. For all 12 participating organizations, the proportion of online donors who had incomes over \$100,000 was greater – and in some cases much greater – than the proportion of non-online donors who earned that much (see Fig. 4).



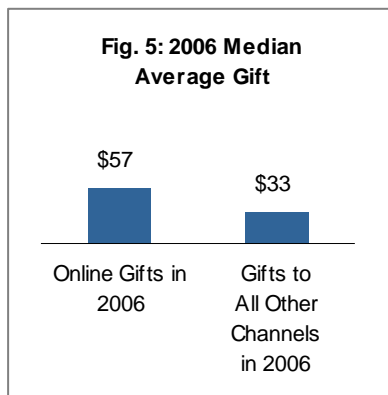
In contrast, the proportion of online donors who had incomes less than \$25,000 was significantly lower than the proportion of non-online donors who earned that amount.

There are not significant gender differences in behavior between online and non-online donors at most organizations. Men do tend to give larger gifts than women, but this is true both for online and non-online donors.

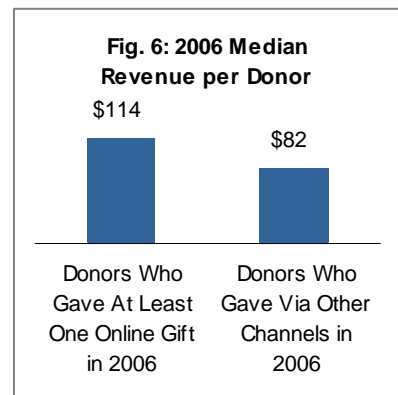
Online donors give much larger gifts than traditional donors

Online donors join at significantly higher giving levels, give substantially more revenue per donor when they renew or reactivate in subsequent years, and have much higher cumulative lifetime revenue over the long term than donors who do not give online.

In 2006, the median average online gift was \$57, in contrast to a \$33 average gift to all other sources (see Fig. 5).



2006 median revenue per donor was \$114 for online donors and \$82 for non-online donors (see Fig. 6).



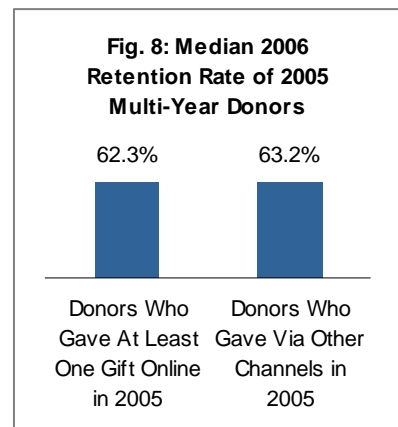
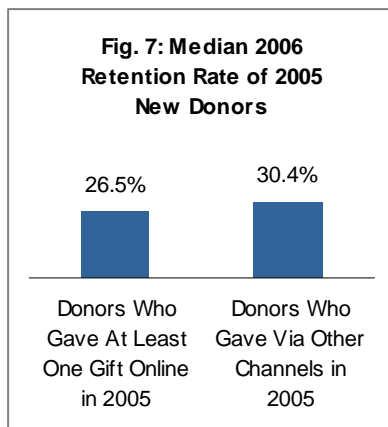
In fact, for 10 participants, 2006 revenue per donor from online donors was more than double that from non-online donors.

As we have seen, online donors tend to have higher household incomes, which almost always correlates to larger gifts regardless of channel. However, online donors still give more than non-online donors even when they have the same income level.

Online donors are slightly less loyal than traditional donors

Online donors renew at lower rates than donors who do not give online. This is more evident for new donors; as loyalty to the organization increases, renewal rate differences diminish.

For donors who were new in 2005, those who had given online in their acquisition year renewed at a median 26.5%, while those who had not given online in their acquisition year renewed at a median 30.4% (see Fig. 7). Retention rates were essentially the same for 2005 multi-year online and non-online donors (see Fig. 8).



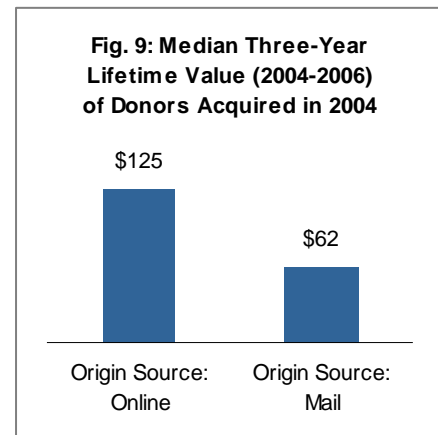
Donors who are acquired online renew at lower rates than donors acquired through other channels. This was true for 7 of the 12 participants. The organizations which had higher renewal rates for online donors all tended to have relatively low numbers of online donors to renew.

Renewal rates do not vary significantly with differences in demographic factors such as age and household income.

Online donors have a significantly higher average long-term value than mail donors

Over time, online donors’ much larger initial gifts, coupled with corresponding larger dollar amount increases in subsequent years, more than compensate for their somewhat lower retention rates. This means that over the long term, online-acquired donors have a higher average lifetime value than mail-acquired donors. This was true for all 12 of the participating organizations.

For example, the three-year median lifetime value of donors who were acquired in 2004 was \$125 if the donor was acquired online, and \$62 if the donor was acquired through direct mail (see Fig. 9).

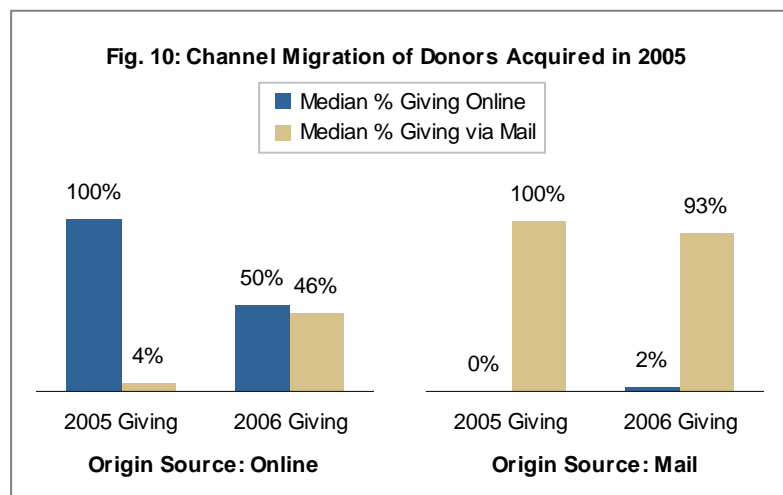


2004 is a good acquisition year to use as a reference, since gifts in that year were not motivated by either of the disasters that caused anomalous spikes in online revenue for several organizations in 2005 – the Asian tsunami in December 2004 and the U.S. Gulf Coast hurricanes in the fall of 2005.

Online giving is not currently well-integrated with direct marketing efforts

The vast majority of non-profit constituents are established direct mail donors who rarely give online. The longer a direct mail donor has been giving to an organization, the less likely they are to start giving online. Direct mail donors do not renew online, and lapsed direct mail donors do not reactivate online.

The converse is not true, however; a substantial portion of online donors migrate steadily to direct mail in lieu of online giving as they continue to renew and support the organization. For donors acquired online in 2005, only a median 4% also gave direct mail gifts in their acquisition year, but 46% of them gave direct mail gifts in their renewal year (see Fig. 10).



The proportion of these donors who gave online also dropped correspondingly, from 100% in 2005 to 50% in 2006.

The consensus among meeting participants was that this is potentially a reflection of organizational renewal practice rather than of donor preference. Most of the participants said that their online-acquired donors fall into their regular direct mail renewal solicitation stream – either as a conscious choice, because they do not have an active online renewal strategy, or because of the lack of proven practices to justify withholding donors from the mail cycle.

Very few non-online donors reactivate online. For all participating organizations, of their donors who had never given online before they lapsed, fewer than 5% reactivated online in 2006. Donors who gave online in the year they lapsed are far more likely to reactivate online when they do give again. For all participants, over 35% of their 1- to 5-years-lapsed donors who gave online in the year they lapsed reactivated online in 2006.

Older donors are less likely than younger donors to renew online, whether they were acquired online or not. This was true for 8 of the 12 participants in 2006.

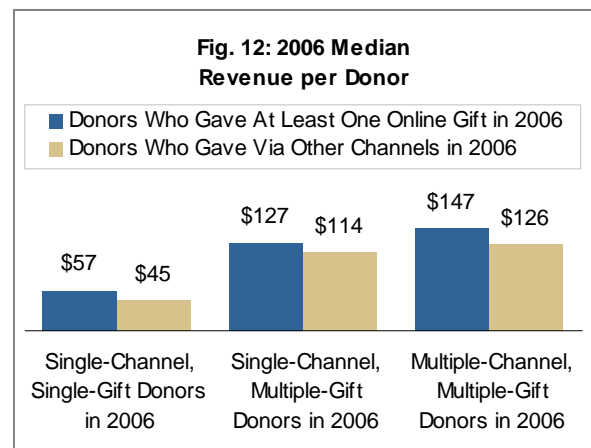
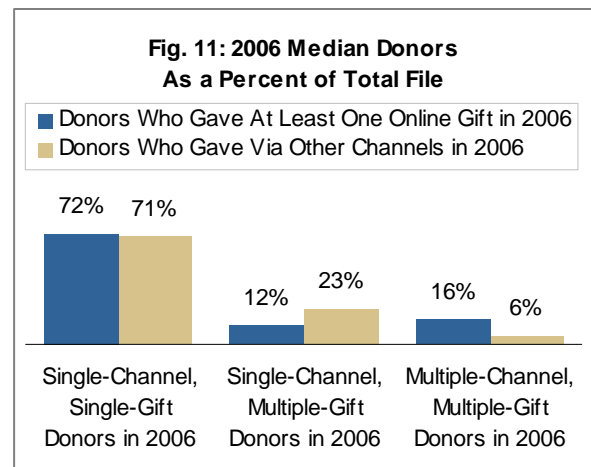
Multiple-channel donors have higher revenue per donor and higher retention rates than single-channel donors

Most donors only give to one giving channel in a single year. Online donors are more likely to give to more than one channel than non-online donors, but the vast majority still give to only one channel.

For the 12 participating organizations, a median 16% of their online donors and 6% of their non-online donors gave to more than one channel in 2006 (see Fig. 11).

Although there are fewer of them, donors who give to multiple channels have much stronger performance in several key measures than donors who only give to one channel. This is true for both online and non-online donors, and is true even when controlling for donor giving frequency.

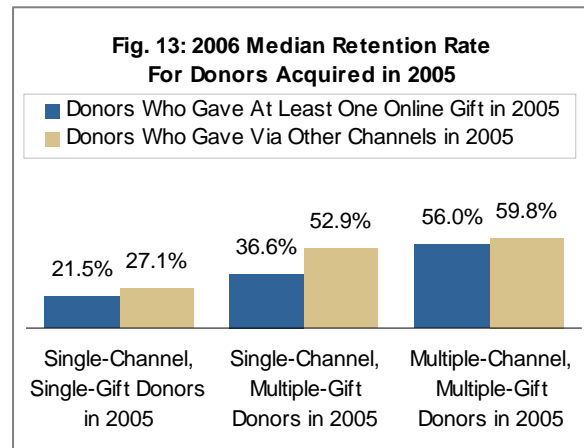
For example, revenue per donor is higher for donors who give to multiple channels, for both online and non-online donors. For the project participants, single-channel multiple-gift donors gave a median \$127 per year (for online donors) and a median \$114 per year (for non-online donors). In contrast, multiple-channel multiple-gift donors gave a median \$147 per year (for



online donors) and a median \$126 per year (for non-online donors) (see Fig. 12).

Donors giving to multiple channels also renew at much higher rates than those giving to only one channel. This is true for both online and non-online donors, and is particularly true for new donors.

For donors acquired in 2005, multiple-gift givers who only gave to one channel in their acquisition year renewed at 36.6% (for online givers in 2005) and 52.9% (for non-online givers in 2005). In contrast, those who gave to more than one channel in their acquisition year renewed at 56.0% (for online givers in 2005) and 59.8% (for non-online givers in 2005) (see Fig. 13).



Online-acquired donors have higher lifetime value in aggregate, but their high average gifts may mask issues with cultivation and renewal

Acquisition gift amount is a major determinant of donor lifetime value. As we have seen, in aggregate, online donors give much higher average acquisition gifts and continue to give higher average subsequent gifts when they renew. Therefore, the typical online donor is far more valuable to organizations over the long term than the typical direct mail donor on a gross revenue basis.

For example, for new donors in 2004, the typical online donor was acquired at the \$25-34 level, while the typical mail-acquired donor was acquired at the \$15-24 level. Three years later, in 2006, the average three-year revenue per donor for these 2004 acquisitions was \$125 for online-acquired donors, versus only \$62 for mail-acquired donors.

However, when controlling for acquisition gift level, mail-acquired donors actually yield higher revenue per donor over several years than online-acquired donors.

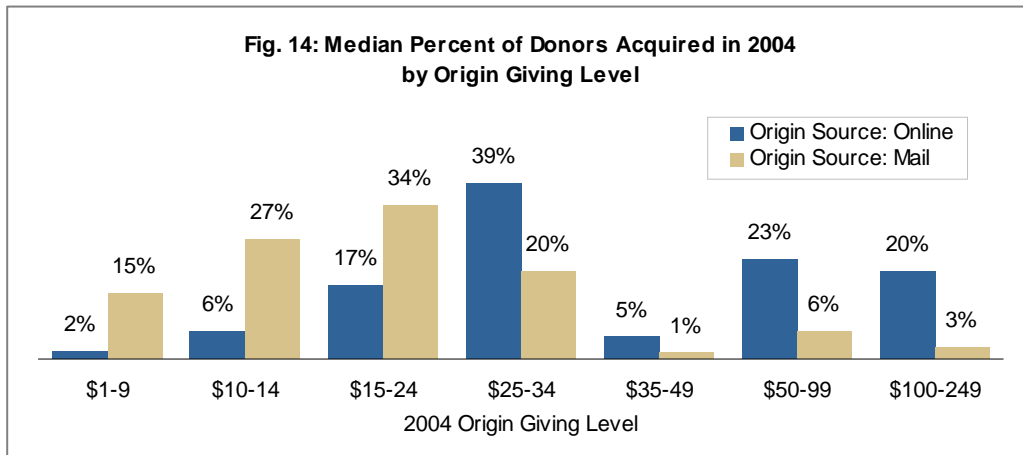
This is mainly due to the higher renewal rates of direct mail donors, and may indicate an opportunity for better cultivation and renewal of online donors.

Understanding this requires some step-by-step analysis of donor behavior.

First of all, donors acquired online do come in at much higher original giving levels than donors acquired by direct mail. For example, for all 11 participants which had sufficient historical data to analyze, donors acquired online in 2004 tended to be acquired at much higher giving levels than mail-acquired donors (see Fig. 14). For 5 of the 11 organizations, over 70% of their online-acquired donors were acquired at \$50 or above.

In addition, when controlling for origin giving level, online-acquired and mail-acquired donors actually gave similarly-sized gifts when they renewed. Donors at higher origin giving levels tend to increase their annual giving faster than those at lower giving levels, regardless of their origin source. The average online-acquired donor did give larger average gifts in each successive year

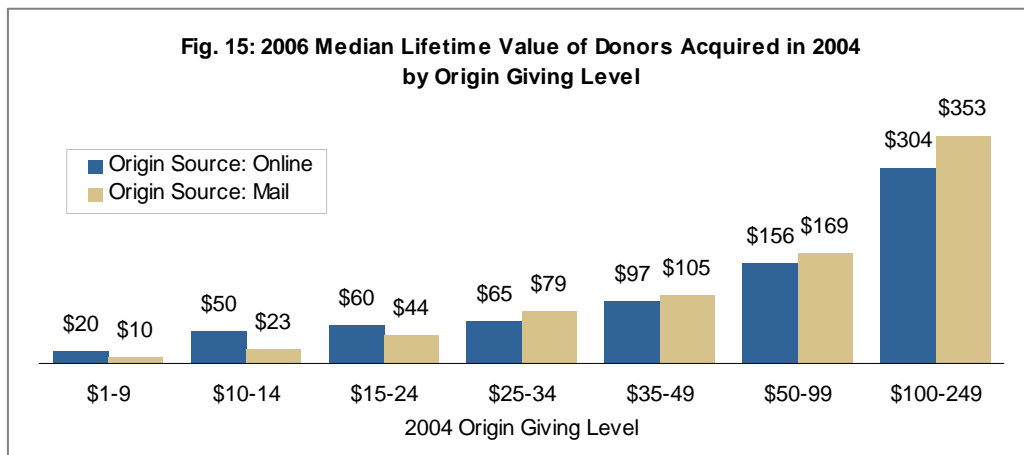
than did the average mail-acquired donor for all 11 organizations, but this was primarily because the online donors had started at higher giving levels in the first place.



And finally, online-acquired donors tend to lapse at higher rates than donors acquired by mail. For 7 of the 11 organizations, a slightly higher percent of mail-acquired donors who were acquired in 2004 remained giving to the organization in 2006 than those acquired online.

The end result of these combined trends – similar increases in average gift coupled with lower retention for online donors – is that a mail-acquired donor will generally have a higher average cumulative lifetime value over the long term than an online-acquired donor acquired at the same original giving level.

For example, for donors acquired in 2004 at the \$100-249 level, the median lifetime value of each online-acquired donor was \$304 in 2006, while the median lifetime value of each mail-acquired donor was \$353 (see Fig. 15).



It is important to keep in mind, however, that these are gross revenue figures only and that costs and net values should be calculated as well to further understand the return on investment for these two groups.

Conclusion

Target Analysis Group has held many benchmarking meetings for groups of non-profit organizations across a wide array of industry sectors. Donordigital develops and manages successful online fundraising programs for major non-profit organizations. Producing a benchmarking analysis and forum focused solely on online fundraising emphasized to participants just how large the opportunities are for online marketing, and how much we still have to learn about it to develop practices that work.

Participants' data showed that there are definite trends specific to online donors. They are a rapidly growing population of relatively young, upper-income people – constituents that non-profits very much want to attract and keep. But online donors are also less loyal and generally have not yet been effectively integrated into existing marketing programs.

As online giving continues to grow, it will be increasingly important for organizations to acquire and cultivate these donors more effectively. Internet donorCentrics is a first step in establishing benchmarks for success in online fundraising within the context of an integrated direct marketing program, and in providing a forum for performance comparison and sharing of ideas and best practices.

Next Steps

Target Analysis Group will be convening another internet benchmarking forum for a new group of organizations in mid-2007. Interested organizations should contact Kathy Gallagher at kgallagher@targetanalysis.com or 617-583-8610.

Notes

All references to years within this analysis are based on a July through June twelve-month period. For example, a date of "2006" or "June 2006" appearing on a graphic or report would include giving from July 2005 through June 2006.

All data is calculated directly from transactions downloaded from each organization's fundraising system. Participants have had the opportunity to review and approve a diagnostic report of revenue and gift totals by source for the years included in this analysis.

All gifts below \$5,000 are included in the analysis. Larger gifts are excluded so as not to skew benchmarking results.

The terms "web", "internet", and "online" are used interchangeably throughout the analysis. These terms refer to gifts given through the organization's website, regardless of what motivated the donor (e.g. an e-mail solicitation, an online marketing effort, direct mail, etc.).

Throughout the analysis, the demographic characteristics of household income and age generally refer to the age of the person listed as the head of the household, whether or not the head of household was actually the donor to the organization. Gender generally refers to the gender of the actual donor to the organization.

Cultivation and other investment costs are not part of this analysis. Organizations differ significantly in their investment levels for various direct marketing activities. Subsequent analyses will delve more deeply into the costs and net value of internet giving activities.

Presence of email address was not used to analyze the responsiveness level of donors. This variable will be considered in the next analysis.

Classification of online gifts into finer categories that signified motivation for the gift (e.g. email, banner ads, web site visits) was inconsistent or missing from most transactional giving data files, so it could not be used for cross-organizational benchmarking.

About Target Analysis Group

Target Analysis Group delivers data-driven, collaborative solutions designed to help non-profit organizations maximize their fundraising potential. Founded in 1989, Target Analysis Group was the first company to bring forward-thinking non-profit organizations together to establish industry-standard benchmarking and openly discuss successful strategies and practices. Target Analysis Group, Inc., became a subsidiary of Blackbaud, Inc., in January 2007.

About Donordigital

Donordigital is a full-service interactive agency that helps organizations develop and manage large online fundraising, advocacy, and marketing programs to build their constituencies. Since 1999, Donordigital has been working with major nonprofits including CARE, the Alzheimer's Association, Amnesty International USA, Earthjustice, the Humane Society of the United States, Human Rights Campaign, NARAL Pro-Choice America, American Jewish World Service, SEIU, and others. More information at www.donordigital.com.