Is it Time to Invest Less in Direct Mail?

Invest in a Different Type of Direct Mail?

Building Investment Scenarios Will Help You Find Out!

NEWPORT**ONE**

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Today's market trends may have you wondering if your organization should be investing fewer dollars in direct mail acquisition. You may be thinking about moving away from paper-intensive packages, like premiums, or reducing mail volume and shifting savings to other channels, particularly digital.

Afterall, in the past 18 months we've experienced:

- Significant cost increases in materials, labor and postage
- Less-predictable sourcing of paper, manufacturing labor and postal delivery timelines
- Ongoing aging out of donors most responsive to direct mail
- A surge in digital giving at the onset of the pandemic drawing out much-sought-after digital-friendly millennial donors.

One of these trends would make you pause for thought, but the convergence of all demands some level of action. But, before you make radical changes to your program, please ask yourself these important questions:

1. How much of the seismic shift in giving trends related to the pandemic can be replicated moving forward?
2. What will your program metrics look like three to five years from now if you replace premium packages with non-premiums or redirect significant amounts of acquisition budget from mail to digital?

The answer to the first question may largely rely on instinct, but the great news is the second question can be quantified using a technique referred to as Investment Scenario Building.

Investment Scenario Building is a methodology that utilizes your historical data along with channel planning and projections to quantify the impact of investment changes that would otherwise be theoretical. Scenarios reveal the short- and long-term impact of changing investments in volume, package type, channels or even building out an entirely new program.

Scenario Building isn't new in our industry, but I can't recall a time when the methodology has been more needed. The following are two recent cases where scenarios were developed to guide strategic decisions regarding investments in direct mail.

CASE ONE:

Pivoting From 100% Premiums to a Blended Approach.

Many organizations seek to diminish "the reliance on premiums" to attract new donors, in part due to ongoing cost increases in manufacturing and postage. But also, premiums like cards, calendars, tote bags and other products with perceived value tend to draw more marginal or one-off donors than mission-based offers do.

In this case, the nonprofit belonged to a market sector where premiums are used liberally and successfully. The group had no immediate intent to move completely away from their acquisition controls, but did desire to allocate a significant portion of volume to non-premium packages. Their overarching goal was to hit break-even faster while attracting more valuable donors.

The question was, how much mail volume should be shifted to non-premium to support their goal and how would the change affect short- and long-term file and revenue trends?

To answer the question, we developed three scenarios, each with the same acquisition spend, including 1) status quo or 100% premium-based, 2) a blend of 70% premium, 30% non-premium packages and 3) a radical departure with only 30% of volume allocated to premiums.

Results showed that reducing premiums by 30% would achieve the organization's goal. As the chart details, the 30% reduction would yield 15% fewer new donors, but over a three-year period, the fewer donors would hit break-even while the 100% premium cohort would not.

	SCENARIO #1 100% Premiums	SCENARIO #2 70% P/30% NP	SCENARIO #3 30% P/70% NP
New Donors	13,500	11,540	8,400
Acquisition Revenue	$256,500	$240,550	$189,000
3-Yr. Gross Val/Donor	$60.82	$75.02	$76.68
3-Yr. Net Val/Donor	($13.20)	$1.12	($8.93)
3-Yr. Net Revenue	($178,198)	$12,957	($74,998)

The result was due to a combination of lower costs of non-premium packaging in acquisition and renewal efforts and acquiring fewer but significantly more valuable donors. By the way, the third scenario, though attractive to those opposed to premiums, showed that given current response trends, the file would shrink too far, too fast. Carefully growing into a reduction in premiums was a better approach.

CASE TWO:

Digital and Direct Mail Acquisition Investment – Finding the Right Volume and Value.

The second case is relevant for just about every organization, but particularly for regional nonprofits fundraising in a saturated direct mail acquisition market.

When reviewing channel performance at the close of the fiscal year following the early pandemic period, this organization, like so many others, saw large gains in digital acquisition. They had a 400% increase in the number of new digital donors and doubling average gift and value. While digital donors were already more valuable than direct mail donors, this year the value was five times greater.

The numbers were so compelling that, at face value, shifting investment dollars from direct mail to digital media would seem a logical strategy. But, before budgets were changed and dollars reallocated, Investment Scenarios were built to determine what an optimized investment in digital media could look like, particularly if funded by reduced direct mail volume.

The first step was to isolate the number of new donors and revenue that was directly attributable to the digital media spends (not organic, other fundraising efforts or existing donors). Based on this data, a representative investment level of $250,000 was chosen to determine the number of new donors and revenue each channel would yield.

As the chart shows, digital and direct mail would generate a similar level of gross revenue in acquisition ($169,231 vs. $157,500), and as expected, donors acquired through digital media would be three times more valuable on a per-donor basis than direct mail donors. However, the total net revenue generated by direct mail donors in the period would be greater due to the 600% increase in the number of donors acquired.

	SCENARIO #1 Direct Mail	SCENARIO #2 Digital
New Donors	3,077	450
Acquisition Spend	$250,000	$250,000
Acquisition Revenue	$169,231	$157,500
3-Yr. Gross Val/Donor	$128.95	$535.25
3-Yr. Net Val/Donor	$24.74	($23,64)
3-Yr. Net Revenue	$76,125	($10,638)

The result was driven by significantly higher response rates in direct mail and the higher cost of digital media. For the moment, this organization will increase investment in digital media, but only incrementally, while continuing to improve upon the number of new donors acquired. It's important to note that although this is the plan going into the year, changing market conditions will likely change plans!

Key Ingredients to Building Investment Scenarios.

Building Investment Scenarios takes some effort and expertise, but once the key ingredients and process are in place, the methodology will prove invaluable to making decisions associated with your biggest marketing expense: donor acquisition.

As you review the critical steps below, consider your organizational readiness level specifically pertaining to data such as access to donor long-term value reports by channel, historical costs of acquisition and cost of subsequent treatment at the donor level. If you don't have all components in place today, you can get started by using informed estimates.

Long-Term Donor Value (LTV) by Acquisition Channel.

LTV reporting by channel requires customization as each channel must be filtered by the set of codes or fields used to attribute donations directly to the channel. Sometimes these codes are consistent and documented, often they are not. Filtering data correctly is essential to an accurate outcome, but using external LTV benchmarks can be helpful.

You may not have the capability of running LTV reporting in-house, but key indicator reports including long-term value by year acquired are highly accessible in terms of price and supplier options. Most agencies, analytic firms or CRM providers have an iteration of LTV reporting tracking critical facts, including donors, gifts and revenue in year of acquisition and subsequent years.

Capturing Costs at Donor Level.

If you store interactions and costs at the donor level in your database or data warehouse, you're in great shape for this process. However, if you're like most organizations, you may not have convenient access to this data, though there are workable workarounds.

Acquisition costs can be found in campaign results reports, while renewal and reactivation costs can be estimated using historical and planned RFM+ contact strategy. For example, you may on average contact your donors seven times each year at an average of $0.65 per contact, which means you're spending $4.55 per donor. To get your total cost of renewal and reactivation, you multiply your average spend per donor ($4.55) by your mailable universe.

Estimating contact history and cost is less than precise, but Scenario Building is directional and assumes a margin for variance. That said, maintaining interactions and costs on your CRM or data warehouse is best for accuracy and ease of use for analytic projects where net dollars and return-on-investment are deciding factors.

Channel Planning by Channel Experts.

When considering investment shifts and outcomes, you'll work with your channel experts to put together achievable plans to support your "what ifs." Typically, three scenarios are developed: 1) status quo investment, 2) a moderate change, which may be redirecting, reducing or increasing the spend by 10%-15% and 3) a more aggressive scenario with a change in investment dollars of 25%-50% or more. Channel experts will plan volumes, response rates, gift amounts and costs.

A Reminder: Source Coding and Data Structure are Really Important!

Scenario Building, along with other analytic work, is dependent on reliable information. The adage "garbage in, garbage out" may be truer today than when originally coined in the mid-twentieth century.

The quality of analysis and data science is directly tied to the quality of information stored. It's very hard to establish long-term value by acquisition channel when data coding is undocumented, inconsistent, not intuitive and/or sitting in separate systems. Whatever time it takes to ensure your data is structured and coded in an accessible and consistent way to facilitate reporting and analytics will be well worth your effort.

Readiness level for Scenario Building or any comprehensive analytic project begins with comprehensive, consistent source coding.

Final Thought.

Are you ready to quantify the long-term impact of using direct mail less or differently? To use a proven methodology to help you better manage acquisition channel investments in a dynamic and rapidly changing marketplace?

If we've learned anything from 2020, it's that life is unpredictable and market trends can be greatly disrupted and changeable. Investment Scenarios is an essential tool and process to ensure any significant changes in your acquisition investment strategy are grounded in data, with a focus on short- and long-term outcomes to keep your direct response program thriving.

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