blackbaud

Calculating Return on Investment for Planned Giving Marketing

A Discussion for the Planned Giving Community

By Katherine Swank, J.D., Principal Strategic Analytics Consultant, Blackbaud, Inc.

Why Calculating the True Return on Investment of Planned Gifts is Important 1

- Establishing Common Measurements - Marketing 3
- Adopt a Culture of Prospect Segmentation 3
  - Sample Planned Gift Marketing Segmentations 4
- Report Marketing Results (Lead Generation) by Segment 4
  - Sample Planned Gift Marketing Results by Segmentation 5
- Report Gift Expectancies by Marketing Segmentation 8
- Calculating an Average Gift Expectancy Amount 8
- Appending or Collecting Ages 9
- Calculating Known Gift Expectancies by Marketing Segmentation 9
  - Sample Planned Gift Expectancies by Marketing Segmentation 10

Compare Gift Expectancies for Constituents with and Without Marketing 12

  - Sample Planned Gift Expectancies with and without Marketing 12

Increase ROI by Focusing on Prospects with Propensity to Make a Planned Gift 14

A Discussion for the Planned Giving Community 14

Why Calculating the True Return on Investment of Planned Gifts is Important

Of all the ways charitable organizations raise mission funds, planned gifts are among both, the most important, and the most misunderstood. Generally considered end-of-life gifts, they can account for upwards of 30-50% of an organization's annual revenue. For some organizations, however, underfunded, misinterpreted or start-and-stop efforts fail to reach their ultimate revenue potential because planned gift efforts aren't given time to take root and blossom. The issue is not unique to small organizations, nor to organizations of a particular vertical such as human services, animal/children's interests or educational organizations. Rather it's pervasive and the fault may lie in several camps.

- Boards of trustees and financial officers may place too heavy an emphasis on cash-in-the-door today, ignoring the importance of building a revenue stream with proven consistency even during depressed-economic times.
- Development leaders may measure and allocate funds based on criteria more suited for current cash solicitations, ignoring or not understanding that the timing for planned gift notifications and expectancies lays with the donor, not with the gift officer.
- Planned gift officers may not track and report the true return on investment for marketing and programmatic activity; and
- Donors may not be appropriately asked for or not understand the reasons that notification of such a gift is important to the institution.

Given the extended lead time between investment in a program and receipt of 'bookable' cash, failing to report an understandable return on investment is often the foundational culprit. Further, as a community of highly dedicated gift officers, we've taken too long to establish and adopt systematic ways to track and report these future major gifts to the decision-makers holding the funding purse-strings.

The general planned giving community agrees that staff should be primarily evaluated based on activity-related metrics, not solely on spendable cash. Without generally accepted and understandable data our programs will continue to be evaluated on short-term activity rather than on revenue over the long-term.

Like major giving, the process from identification - to contact - to cultivation - to solicitation - to received revenue, is not an annual return. In its 2010 white paper[1], WealthEngine set guidelines for the return on major giving efforts. They assert that nonprofit organizations should take into account several realities of fundraising when setting monetary targets and staffing to meet them. Major gift fundraising, they write, requires:

- 18-24 months from initial contact to securing a major gift.
- 7-8 contacts per prospect (averaging one per quarter).
- 3-4 prospects per major gift secured.

The return on planned giving is an even longer proposition. Yet, the revenue potential is likely to exceed – greatly - that of major gifts over the long term. Let's look at how we might calculate a return on investment for planned giving marketing in a consistent and universal way.

---

[1] *Measuring Fundraising Return on Investment and the Impact of Prospect Research: Factors to Consider,* WealthEngine, 2010.

Establishing Common Measurements - Marketing

In my opinion, adopting common measures, data tracking and reports is one of the most important issues facing the field today. We lack neither talent, tools nor interested donors. We lack consensus. And, where we lack consensus, we lack knowledge. It's a vicious cycle, but one that can be corrected.

The mechanics of planned gift programs are firmly rooted in both annual giving and major giving campaign methods. The timeframe for planned giving, however, isn't comparable. Planned gift programs aren't annual programs – rather they're cumulative efforts moving suspects to prospects then to planned gift donors over time. The cycle is not short-term, and the donation timing isn't ours; it's the donor's. With the need to report and prove forward motion, we must find ways to calculate both short and long-term returns on investment for planned gift efforts.

The easiest and most universal place to start is with our marketing programs. Nearly all of us have them, but not enough of us understand how to assess, compare and use them to their most effective ends:

- Securing more planned gifts.
- Using the marketing budget effectively; and
- Reporting return on investment!

Adopt a Culture of Prospect Segmentation

Looking at the way direct mail, annual fund appeals and special event results are reported, we can take a lesson from our high-volume direct response colleagues… segmentation. Donors come in a variety of shapes and sizes. Some are large, some are small, some have a closer affiliation to the organization, and others do not. Some support us through a special appeal or specific event. Planned gift donors are the same in that they vary greatly. Segmentation of those variations allows us to answer the fundamental who, what, when, and how questions related to planned giving marketing.

The easiest way to get started is by segmenting your planned gift prospect pool by affiliation or 'warmth'. Create segments that look at:

- The close-in or arms-length relationship each constituent has to your mission or your leadership.
- The way the constituent's name came into your database.
- The cohort group into which each consistent belongs.

Here's a sampling of planned gift prospect segments or cohorts. Your organization may have others beyond those listed. Take a bit of time to consider the right segments for your organization. Ask the question: *How should I group affiliated people into natural clusters?*

Consider categories that receive the same information, treatment and communications from you – but different from each other. Here are some thoughts:

SAMPLE PLANNED GIFT MARKETING SEGMENTATIONS

Segment
Board and Committee Members
Past Board and Committee Members
High-Amount Single-Gift Donors (i.e., $10,000 one time or higher)
Loyal High Number of Gift Donors (i.e. 25+ gifts)
Loyal Long-term Donors (i.e., 10+ years of giving)
Champions of Your Organization (i.e., Special Event Team Captains or Table Purchasers)
Special Event Participants
Grateful Patients
Alumni
Parents/Grandparents of Alumni
Faculty and Professional Level Staff
Patrons, Ticket-Buyers and Season Pass Holders
Sustainer Donors/Monthly Gift Donors
Service Users (i.e., Public Broadcasting Viewers or Listeners; Library Card Holders; Medical Services
Athletic Ticket Buyers and Supporters

Report Marketing Results (Lead Generation) by Segment

Use your segmentations for two main purposes:

1. Marketing the planned giving message.
2. Reporting on the results of your marketing efforts.

By doing this, you'll know, over time, how each cohort group performs. You'll be able to determine with more care the amount of resources and methods of engagement you deploy for each. You'll be able to better forecast future expected revenue according to the affiliation each individual has with the organization. Finally, you'll be able to track trends in cohort groups, changes in marketing mediums and planned giving interest in your organization.

Reporting all prospects into a single categorical result hurt, rather than helps others in understanding the accomplishments of the planned giving marketing effort. Let's look at how a simple index by segment (or cohort group) might be analyzed. Below is an example of how each segment of constituents responded to a variety of planned giving marketing pieces over a 3-year period. We'll assume that every cohort segment has received every marketing piece over the past three years and those marketing pieces direct readers to the organization's planned giving web pages. We'll also have to further assume for the Website Request for Information data, that requestors entered their name and identifiable data to match them to those receiving the marketing pieces.

Though my charts are rudimentary, I think they're easy to calculate and follow. Even those of you with little ability to create or manage reports within your database of record can use a spreadsheet in this format.

SAMPLE PLANNED GIFT MARKETING RESULTS BY SEGMENTATION

(36-Month Results)

Segment	# in Segment (Receiving marketing)	Planned Giving Interest Survey (1/yr)	Planned Giving Postcard Series (4/yr)	Planned Giving Newsletter Series (2/yr)	Planned Giving Website Request for Information	% Responding in 36-Months
Current Board/ Committee Members	25	16	2	1	0	76%
Past Board/ Committee Members	95	12	5	7	3	28%
High-Amount Single-Gift Donors ($10,000+)	120	10	19	7	5	34%
Loyal High Number of Gift Donors (25+ gifts)	500	60	15	16	10	20%
Loyal Long-term Donors (10+ years of giving)	500	45	29	28	14	23%

Segment	# in Segment (Receiving marketing)	Planned Giving Interest Survey (1/yr)	Planned Giving Postcard Series (4/yr)	Planned Giving Newsletter Series (2/yr)	Planned Giving Website Request for Information	% Responding in 36-Months
Donors of Less Than 10 years	2,000	67	1	4	32	5%
Donors Lapsed within 2-5 years	300	22	12	26	15	25%
Gala Table Purchasers (last 5 years)	60	6	0	4	3	22%
Gala Guests (last 5 years)	400	2	0	3	1	2%
Professional Level Staff	20	8	0	0	0	40%
Monthly Gift Donors (enrolled within last 5 years)	320	23	11	32	65	41%
TOTALS	*4,340*	*271*	*94*	*128*	*148*	*15%*
% by Effort		*6%*	*<1%*	*3%*	*3%*	

It's easy to see how each segment responded to a different type of marketing piece. By analyzing the results, this organization's planned gift officer or development manager might conclude the following about the planned giving marketing plan:

- *Current board* and *committee members*, *Professional staff* and *Monthly gift donors* exceeded all other segments in responding to the full marketing stream.
- Donors less than 10 years and Guests from the past 5 gala events were the least responsive.
- The *planned giving interest surveys* produced two times the number of results over the *newsletter series* and the *planned giving website pages* – but all three together are the best qualified lead producers.
- The *postcard series* produced leads in less than 1% of the target audience.

Based on these results, the following changes to the marketing plan might be considered:

1. Send the planned giving interest survey to additional constituents from the following segments:
    a. *Loyal High Number of Gift Donors (25+ gifts)*
    b. *Loyal Long-term Donors (10+ years of giving)*
    c. *Donors Lapsed within 2-5 years.*
2. Send the planned giving newsletter series to additional constituents from the following segments:
    a. *Loyal Long-term Donors (10+ years of giving)*
    b. *Donors Lapsed within 2-5 years.*
3. Promote the planned giving web pages in more ways and through more organizational communications.
4. Limit the postcard series to the following segments, where it performed well:
    a. *High-Amount Single-Gift Donors ($10,000+)*
    b. *Loyal High Number of Gift Donors (25+ gifts)*
    c. *Loyal Long-term Donors (10+ years of giving)*
    d. *Donors Lapsed within 2-5 years.*
5. Send just the planned giving interest survey to *Donors of Less Than 10 years*, as it was the only marketing piece that performed well with this group.
    a. Note that they sought out planned giving information on the web - continue to look for ways to promote the web pages site and its URL to this group of constituents in particular.
6. Reduce or eliminate sending planned giving marketing pieces to *Guests of the gala event*.

If you've been coding your marketing pieces and resultant responses in your Constituent Relationship Management software (CRM), you can do a backward look to see how your marketing pieces have performed over the past few years. I'd suggest looking back three years, if possible, and segmenting your marketing recipients into cohort groups prior to conducting your analysis. This may only work well for a marketing plan that has been substantially the same during this period. If you've substituted one marketing piece for another within the past 3 years, a multi-year analysis like this one won't allow you to compare apples to apples.

A single year review isn't recommended either. While interesting, it's not highly informative. It won't help you to determine which marketing pieces produce results because those interested in planned gifts may need more than 6 or 12 months to seek information.

Remember, garnering responses to marketing for planned gifts is on the donors' timeline, not ours.

Start to plan your marketing effort and budget for the long-haul. Consider 2- to 3-year contracts with your publication and website vendors so that you can take advantage of any discounts they may offer. At the end of each contract cycle conduct a marketing audit. Over time, you can be too close to your marketing plan and your materials. You may fail to see what your readers see.

A regularly scheduled review of your marketing plan should cover the actual materials you send out, your audience segmentations and which media, tools and techniques are being used. Include outside "eyes" for your audit. Ask colleagues at other organizations to assist you, as well as your marketing vendor and others within your development staff with marketing expertise such as the communications department or the direct response team.

Report Gift Expectancies by Marketing Segmentation

In addition to knowing which segmentations respond to what pieces, it's also beneficial to understand who makes the largest planned gifts to you, and who makes the smallest. Answering the question, ***which segments are more active and which are less***, you are better informed and can make more strategic decisions on where to put your marketing dollars, as well as where to spend your cultivation and solicitation time. Ultimately, cohort gift expectancy information could lay the foundation for increased marketing budget dollars and gift officer staff positions.

Using our cohort groups from the marketing example, let's look further into applying segmentation to understand the gift expectancy value of different types of affiliated groups within the organization. In this chart gift, expectancies have been tracked and the date of notification was also recorded.

To get to the result, you will first need to calculate an average gift expectancy amount and also understand the ages of your prospect pool and planned gift donors.

Calculating an Average Gift Expectancy Amount

To assign each expected future gift with a value, you might use an average of gift amounts reported or received or both. For our purposes, we'll use raw dollars and not apply a net present value nor a discount to that figure. Because we are discussing 'bookable' dollars here but rather return on investment – let's keep this simple.

If you've been the recipient of planned gifts in the past you can average their dollar amount in a simple calculation:

Total of Planned Gifts Received ÷ Number of Planned Gifts Received = Average Gift Expectancy

Alternatively, you could calculate an average gift expectancy using other expectancies if the donor has indicated a guestimate value:

Total of Known Planned Gift Expectancy Amounts ÷ Number of Planned Gifts with a Known Expectancy Value = Average Gift Expectancy

Appending or Collecting Ages

It's my experience that knowing the age or using an assumed age of your donor is one of the top data points needed for any planned giving program. Without it, your assessment of marketing and an understanding of the program's objectives and future value to the organization will be misunderstood, and under-valued.

If you don't currently have age, class year or dates of birth populated on a large portion of your database, consider purchasing an age overlay. Marketing and data vendors offer this service at a reasonable price. Without age, you won't be able to understand which segments have shorter and longer wait-times for planned gifts to mature.

A marketing focus on older constituents may produce planned gift revenue sooner but may leave the largest pool of future revenue on the table. Worse yet, planned gifts from groups like younger alumni may not come at all – particularly if you fail to inform them of your desire to receive them and how to create them.

Calculating Known Gift Expectancies by Marketing Segmentation

In this chart, I've laid out another rudimentary, but effective, way to visualize the value of your marketing efforts. This exercise will provide your organization with ***Total Known Expectancies for All Marketing Segments***. I've presented the review by looking at 3-, 5-, 7- and 10-year results (36/60/84/120-Months respectively).

SAMPLE PLANNED GIFT EXPECTANCIES BY MARKETING SEGMENTATION

(36/60/84/120-Month Results)[2]

Marketing Segment	# Expectancies Documented or Reported			# Gifts Matured (120 Months) 3	Average Gift Amount Received	Average Age of Segment Constituents	Average Years to Receive Revenue4
	Last 36 Months	Last 60 Months	Last 84 Months				
Current Board/ Committee Members	10	16	19	5	$73,962	73	12 years
Past Board/ Committee Members	4	7	9	12	$36,201	82	2 years
High-Amount Single-Gift Donors ($10,000+)	6	13	15	8	$102,955	57	28 years
Loyal High Number of Gift Donors (25+ gifts)	23	36	74	58	$29,088	61	24 years
Loyal Long-term Donors (10+ years of giving)	19	37	49	69	$41,736	73	12 years
Donors of Less Than 10 years	9	12	12	5	$24,967	46	39 years
Donors Lapsed	15	28	49	73	$38,678	79	6 years

[2] The number of expectancies documented or reported is cumulative for 60 (5 years) and 84 months (7 yeas) – indicating the total number of expectancies reported during the representative time period. For example, in the past 36 months (3 years), ten current board or committee members notified the organization of a planned gift in place; those ten planned gifts are also counted in the 60 and 84-month totals.

[3] The number of gifts matured will include all planned gifts paid out in the past 120-months (10 years) and may include some of the same donors as are counted in the expectancies if the donor passed away shortly after notifying the organization of a planned gift in place. It may also include planned gifts that were paid out but not known of before the notice of payment.

[4] Average age for revenue received is assumed to be 85 years old.

Marketing Segment	# Expectancies Documented or Reported Last 36 Months	Last 60 Months	Last 84 Months	# Gifts Matured (120 Months) 3	Average Gift Amount Received	Average Age of Segment Constituents	Average Years to Receive Revenue4
within 2-5 years							
Gala Table Purchasers (last 5 years)	1	2	2	0	$0	52	33 years
Gala Guests (last 5 years)	0	1	1	1	$10,000	*No current expectancies*	*Not applicable*
Professional Level Staff	3	4	7	2	$15,000	48	37 years
Monthly Gift Donors (enrolled within last 5 years)	20	27	32	16	$47,351	71	14 years
TOTALS	*110*	*183*	*269*	*249*	*$42,984*	*64*	*21 years*
Total Known Expectancies for All Marketing Segments	*$24,156,780*						

By analyzing their results, this organization's planned gift officer or manager might consider the following actions:

- Start or increase personal contact with *High-Amount Single-Gift Donors ($10,000+)*, *Current Board/ Committee Members*, *Loyal Long-term Donors (10+ years of giving)*, and *Monthly Gift Donors (enrolled within last 5 years)* as they have the highest average planned gifts.
- Increase engagement with *Professional level staff* on the impact planned gifts has on the organization's mission.
- Increase information about the planned gift program and its impact on *Gala Table Purchasers* and *Gala Guests*; perhaps include a 'planned giving ad' in the gala program.

Compare Gift Expectancies for Constituents with and Without Marketing

To take your analysis one step further, you might find it useful to compare known expectancies from individuals that have no history of direct marketing for planned gifts, to those that have received marketing. Such an analysis may be important to show how a decrease or cessation of planned giving marketing would affect future planned giving revenue.

SAMPLE PLANNED GIFT EXPECTANCIES WITH AND WITHOUT MARKETING

(36/60/84/120-Month Results)

Segment	# Expectancies Documented or Reported			# Gifts Matured (120 Months)[5]	Average Gift Amount	Known Expectancies for the Past 84 Months
	Last 36 Months	Last 60 Months	Last 84 Months			
Received Marketing	110	183	269	249	$42,983	$11,562,427
No Known Marketing	13	23	26	28	$36,876	$958,776

In this example, the organization could calculate a general return on investment of the planned giving marketing budget. While there are many budget items that might be added into the total investment, let's make it easy. Consider my simplified formula to figure out your cost to raise a dollar (CDR) through your planned giving marketing:

CDR Formula: (Marketing Budget x Years of Assessment) + (50% Gift Officer Salary/Benefits x Years of Assessment) ÷ Expected Known Revenue from Marketing Segments = Cost to Raise a Dollar

With your CRD calculated you can multiply to get your return on every dollar invested in the marketing program.

[5] The number of gifts matured will include all planned gifts paid out in the past 120-months (10 years) and may include some of the same donors as are counted in the expectancies if the donor passed away shortly after notifying the organization of a planned gift in place. It may also include planned gifts that were paid out but not known of before the notice of payment.

ROI Formula: $1 - Cost to Raise a Dollar x 100 = Return on $1 Invested

Working through our example, let's assume the planned gift officer's total compensation including benefits averaged $100,000 per year over the past three years. This may be high or low depending on your organization and the region of the county where you work. Because the planned giving officer does not spend 100% of his or her time on marketing, we'll apply a 50% discount to the salary and benefits – or <u>$150,000 total salary/benefits over three years</u>.

The marketing budget has been consistent as well at $60,000 a year over the past three years. <u>The budget totals $180,000 for 3 years</u>.

This gives us a total cost of $330,000 in 'cost' for our 36-month calculation.

With 110 expectancies identified (see example table above) in the past 36 months (3 years) - at an average gift amount of $42,983 - <u>the gift officer is credited with $4,728,130 of the total known expectancies through marketing over the past 3 years.</u>

Now we can calculate the cost to raise a dollar through planned gift marketing for the past 3 years:

CDR Formula: $330,000 + $150,000 ÷ $4,728,130 = $.06

Using our very simplified calculation, we can say that a conservative ROI for marketing is $94 for every $1 spent.

ROI Formula: $1.00 - $.06 x 100 = $94.00 return on every $1.00 invested

This is fully in line with the extensive review the University of Colorado (CU) completed and reported in the article, *The Case for Gift Planning: Analyzing the Cost to Raise a Planned Gift Dollar*.[6]

Using a more complicated evaluation method extending over a decade and considering expenses for salaries, benefits, even paper and staples, they reached a CRD of only $0.11 even when using a net present valuation for each known future planned gift. That's an ROI of $89 for every dollar invested.

Both my simple formula and CU's complex assessment are well-below James Greenfield's reported CRD of $0.25 as cited in his book Fund-Raising: *Evaluating and Managing the Fund*

[6] Dugdale, Kristen, *Journal of Gift Planning*, Vol 11, Number 1, 2007.

Development Process.[7] By his measure, on average an organization can expect to see a return of $75 on every dollar invested.

Increase ROI by Focusing on Prospects with Propensity to Make a Planned Gift

When you're ready, it's easy to increase your ROI and reduce your CRD by using analytics. By working with a data and analytics specialty company, like Blackbaud Analytics, you have access to highly predictive behavior data allowing you to target the right constituents in your database for planned gifts.

Known consumer, financial and philanthropic behavioral attributes are used to identify constituents with planned gift propensity. It's a proven strategy that's been available for the past 15 years. **Think of marketing segmentation on steroids.**

Predictive analytics sorts your segments into those who have low, medium and high planned giving markers. The assessment allows you to better target **WHO** in each cohort group should receive planned giving marketing and who should not. Such an exercise can only increase your return on investment because you will not be spending any funds on those not likely to make a planned gift.

Read more about our ProspectPoint predictive planned giving models here. Our professional services team offers consulting packages that meet your needs to assess and evaluate your planned giving programs more fully as well.

A Discussion for the Planned Giving Community

So, what do you think? Are we in agreement that adopting common measures, data tracking and reports is important? Do we have a consensus? Let me know your thoughts or how you calculate return on investment for your planned giving marketing**.**

Contact me at Katherine.Swank@Blackbaud.com. I'm listening.

[7] Greenfield, John Wiley & Sons, Inc. 1999.