
Shallow Review of Direct Mail Fundraising



Direct mail fundraising is sending mail with the aim of raising money. There are two types of direct mail fundraising: donor renewal mail and donor acquisition mail. Donor renewal, or warm, mail is sent to existing donors whereas donor acquisition, or cold, mail is sent to people who have no prior involvement with the charity. The content of the mail can vary. An example of warm mail could be sending a newsletter or notification of a fundraising campaign, while an example of cold mail could be sending a brochure about what the charity does.

Research

In terms of fundraising ratios, direct mail fundraising doesn't fare too well. According to Supporting Advancement, donor acquisition mail is estimated to cost about \$1-\$1.25 per dollar raised in the United States. This is much higher than the national average of \$0.20 per dollar raised. However, the goal of donor acquisition mail is building a prospect list, as opposed to immediately receiving donations. For donor renewal mail, the fundraising ratio is estimated to be close to the national average of \$0.20/dollar raised [1]. A report from the Association of Fundraising Professionals echoes this sentiment, and lists donor acquisition

mail in the high cost range of fundraising and donor renewal mail in the medium cost range [2].

One caveat to these numbers is that there can be large variations in cost ratios among organizations due to different circumstances [2]. For example, some organizations have written off direct mail costs as programming expenses when the mail contained educational content, i.e., “Don’t drink and drive.” This makes it appear that these organizations have much lower cost ratios for direct mail than other organizations; their clever accounting can make their reported fundraising ratios lower than they should be [3]. Furthermore, economies of scale often allow for larger organizations to have far lower fundraising ratios than smaller ones [5]. Therefore, the average fundraising ratios reported above may not necessarily be a reasonable expectation for Charity Science, and \$0.30/dollar raised is perhaps a more realistic estimate.

As mentioned above, the goal of donor acquisition mail is to gain new donors rather than immediately obtain a good fundraising ratio. According to Charity Village, an acceptable response rate in acquisition mailing is somewhere between 0.5% and 2.5% [5]. This is supported by the website Smart Annual Giving, which lists average acquisition mail response rates as less than 1% [6]. Based on Charity Science’s inexperience in the field, I would expect our initial response rates to be closer to the lower end of the range, at 0.5%.

For donor renewal mail, the response rates are significantly better. Although a variety of numbers are suggested, 8-9% seems to be the average of what’s deemed acceptable for donor renewal response rates [6]. However, according to a report from the Centre for Interfirm Comparison, the response rate for warm mail has dropped from 9.7% in 2011, to 9.5% in 2012 and 8.3% in 2013 [7].

One reason for the medium-low cost ratios and response rates for direct mail is the lack of social pressure that this fundraising technique possesses. An experiment conducted by the Science of Philanthropy Initiative showed that when door-to-door canvassers gave people the option to avoid solicitation, donations were drastically reduced by 28-42% [8]. This study shows the important role social pressure plays in soliciting donations. It also illustrates how passive forms of solicitation, such as direct mail, can be less effective than active forms that use social pressure.

Organizational Sustainability and Necessary Prerequisites

According to the website Fundraising Authority, almost every organization should use warm mail because it is almost always profitable [9]. On the other hand, they suggest that donor acquisition mail shouldn’t be attempted unless an experienced team or a competent direct

mail consultant is in place. In addition, they suggest that testing direct mail strategies is incredibly important. Although use of the scientific method definitely aligns with Charity Science's philosophy, the relatively small size of the organization's current donor list (approximately 500) would make experimentation difficult.

According to Adrian Sargeant, Director of the Centre for Sustainable Philanthropy at the University of Plymouth, mailing lists are commonly purchased for donor acquisition mailing [10]. These lists can be quite demographically specific, i.e., males that made a purchase over \$50 in the last 6 months, but the higher the specificity, the higher the cost. Instead of purchasing a mailing list, smaller charities often engage in list-swaps with other charities in which they exchange mailing lists. This method allows charities to avoid the costs of buying or renting a list. However, list swaps can be damaging in the long term by making donors feel deluged; therefore, care should be taken when using this method.

According to Stephen Pidgeon, from the direct marketing agency Tangible, emotional copy is critical for direct mail even though it is difficult to do properly and requires experience and expertise [11]. He says that either employing a freelance copywriter, getting training in the area or hiring an agency is critical for creating effective copy. If Charity Science were to follow Pidgeon's advice, the additional expense would lower the fundraising ratio even further because of our minimal economies of scale.



According to Joanne Fritz, a non-profit expert from About.com, many large organizations invest in large staffs, expensive technology and expert consultants to run complex and sophisticated direct mail campaigns [12]. However, this isn't feasible for all organizations; for smaller organizations like Charity Science, Fritz suggests sending newsletters and thank-you letters to existing donors before engaging in large-scale direct mail campaigns. She says that this is a worthwhile pursuit because there is considerable evidence that a mailed newsletter is more effective for raising money than an emailed

newsletter. By combining a fundraising appeal with a donor-centric newsletter, sending stories of concrete accomplishments from donations is a highly effective strategy. In addition, Fritz recommends personalized thank-you letters with references to specific accomplishments obtained from the donor's contribution. One final recommendation is to send an annual thank-you letter coupled with tax receipts to serve as a reminder of the organization.

Prevalence

In total, direct mail accounts for 7.5% of total income in the voluntary sector [13]. Warm mail accounts for about 82% of this income and cold mail accounts for the other 18%.

Subjective Sense of Promise and Practicality

Based on research in the area, I would say that donor acquisition mail isn't a good idea for Charity Science right now. However, donor renewal mail may be worth experimenting with.

The main reason I feel donor acquisition mail is not a promising area is its low fundraising ratio. As mentioned above, donor acquisition mail actually costs more than it raises, with a price range of \$1-\$1.25/dollar raised. Although the purpose of cold mail is more to acquire donors than to raise funds, based on an expected response rate of around 1% (if it's done well), it would be an expensive way to recruit new donors. In addition, in order for donor acquisition mail to be done effectively, significant capital investments in mailing lists, expert advisors and copywriters need to be made. Therefore, it would be difficult to run a low-cost experiment in donor acquisition mail.

On the other hand, donor renewal mail seems a more promising area to experiment with. First, it has fundraising ratios of about \$0.20/dollar raised, which aligns with the industry average. However, as mentioned above, based on Charity Science's inexperience in this type of fundraising and its minimal economies of scale, I think a more realistic estimate would be \$0.30/dollar raised. Nonetheless, with donor renewal mail, it would not be necessary to invest in expensive mailing lists; thus, Charity Science's lack of economies of scale would be less important than with donor acquisition mail. Furthermore, because we'd be dealing with a donor base that is familiar with our message, investing in professional copy would be less essential. Therefore, running a low-cost experiment where we send a newsletter or an annual recognition letter to existing donors could be feasible, and would not require a large time commitment.

Running an Experiment

As mentioned above, some good experiments for donor renewal mail include sending newsletters, thank-you letters, and annual donor recognition letters with tax receipts. Currently, Charity Science emails tax receipts, so adding them to donor renewal mailing would incur higher printing costs than do newsletters or thank-you letters. Regarding these last two methods, less time is required to send newsletters than thank-you letters because they are less personalized. Moreover, a newsletter could benefit from bulk savings that individual thank-you



letters would not benefit from. However, thank-you letters could potentially have a more significant effect on donors than newsletters and thus, may be worth the extra time and cost. Ideally, we would experiment with both types; however, for now, due to the low time cost and bulk saving, I think it would be better to experiment with newsletters.

According to CDS Global, a business outsourcing provider, sending out addressed direct mail costs about \$0.50 per letter. Additionally, it costs \$0.75 to receive a gift and another \$0.75 to send a thank-you letter [14]. This implies that there is a cost of \$2.00 per successful letter and \$0.50 per unsuccessful letter. These figures are also consistent with Canada Post's website, which lists a price of \$0.50/piece of addressed admail [15]. Though this price is contingent on a minimum of 500 pieces being sent out [16], Charity Science's current prospect list has roughly 500 people.

With response rates for donor renewal mail at around 10%, we could expect 50 replies, which would cost a total of \$100. In addition, the 450 newsletters that received no reply would cost us \$225, which would create a total cost of \$325 for postage. On top of this, we would need to pay for the staff time required for the campaign, which I would estimate to be 15-25 hours depending on how much each letter is personalized. Based on a \$12/hour wage, this amount of staff time would cost \$180- \$300. In addition, there would be printing costs, which would range from \$40-\$145 depending on whether the letters are printed in black or white and assuming that we would be sending one page to each person [17]. Finally, there would be the cost of envelopes, which would be around \$12 [18]. These cost estimates reveal that we would have to pay \$545-\$770 for a direct mail experiment.

Assuming a fundraising ratio of \$0.30/dollar raised, we could expect to make anywhere from \$2000-\$2800 by doing this experiment. Based on the expected response rate of around 10% and the roughly 500 people we would send mail to, we could expect the average donation from this campaign to be around \$50.

In terms of time to run the experiment, I anticipate that from the start time of preparing the postage to the time when we stop receiving donations in return that this would take about 2-3 months to run.

Further Research

Currently, we have estimates for the fundraising ratio of donor renewal direct mailing for Charity Science (approximately \$0.30/dollar raised) and the cost to run the experiment (\$604-\$830). In order to be more confident with these estimates, we could compare them with the costs and ratios that similar organizations have had with direct mail fundraising. Doing this would allow us to assess and revise our estimates to better understand how direct mail

fundraising compares with other types of fundraising. After having a better understanding of the relative effectiveness of direct mail fundraising, we could decide whether or not this is an experiment we want to move forward with.

References

1. http://www.supportingadvancement.com/faq/cost_per_dollar_raised.htm
2. <http://www.afpnet.org/files/AFP%20Chapters/CN4/MeasuringandReportingFundraisingCosts%20AFPCC.pdf>
3. <https://www.charitywatch.org/charitywatch-criteria-methodology>
4. <http://malwarwick.com/fundraising-ratios-and-other-deceptions/>
5. https://charityvillage.com/Content.aspx?topic=response_rates_to_expect_in_direct_mail_fundraising#.VU6CnvlViko
6. <https://smartannualgiving.com/appeal-response-rates/>
7. <http://www.cifc.co.uk/Fundratios13.htm>
8. <http://spihub.org/importance-of-the-ask>
9. <http://www.thefundraisingauthority.com/fundraising-by-mail/know-about-direct-mail/>
10. <http://knowhownonprofit.org/funding/fundraising/individual-giving/direct-marketing>
11. Sargeant & Jay - Fundraising Management
12. <http://nonprofit.about.com/od/fundraising/a/steptodirectmai.htm>
13. <http://www.cifc.co.uk/Fundratios13.html>
14. <http://www.cdsglobal.ca/blog/direct-mail-fundraising-working-with-postal-service/>
15. https://www.canadapost.ca/tools/pg/supportdocuments/aa_pricesheet-e.pdf
16. <https://www.canadapost.ca/tools/pg/customerguides/CGaddadm-e.asp#1608858>
17. <https://www.tri-cityprinting.com/productColorCopy.html>
18. http://www.staples.ca/en/Staples-Envelopes-White-10-4-1-8-inch-x-9-1-2/product_37343_2-CA_1_20001?externalize=certona

