



## 5 ways to segment customers on a non profit database by Roy Wollen and Bonnie Massa

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### Executive Summary

Database Marketing is the process of designing, building, managing and implementing a targeted marketing strategy through defining layers of customer segmentations that lead to a one to one communication with each customer/member/donor.

### Segmentation of donors

All non-profit clients and vendors share three strategic goals as they design direct marketing appeals and communications:

- Increase the number of donors
- Increase the average gift amount
- Increase the frequency of gift giving

To do that effectively, they leverage the power of

- Database marketing
- Segmentation

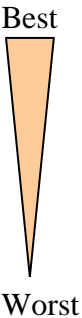
Before any guesswork, the best non-profit marketers begin with an analysis of current donors. They ask “who are the current donors and how can you tell who’s best?”

### Strategy 1: Recency Frequency Monetary (RFM) segmentation

- Recency in months for telemarketing and direct mail appeals; days for online appeals
- Frequency in number of donations
- Monetary Value in revenue

Figure 1: Segmentation of donor base by Recency with accumulations of gift giving

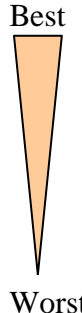
Segmentation by Recency of Donation			
Recency	Donors	Lifetime	
		Gifts	Gift Amount
0-12M	101,095	987,751	\$22,654,392
13-18M	43,625	261,294	\$5,858,550
19-24M	7,520	50,980	\$1,257,168
25-36M	51,375	257,307	\$5,323,890
37M+	490,490	1,762,915	\$30,680,796
Non Donors on File	397,675		
<b>Grand Total</b>	<b>1,091,780</b>	<b>3,321,027</b>	<b>\$65,774,778</b>



- Key Ratios for decision making
  - Average Gift
  - Gifts per Donor
  - Gift Revenue per Donor
  - % Revenue generated by top donors
  - Cost to raise \$1
  - Contribution generated by top donors

Figure 2: Key ratios for management decision making

Segmentation by Recency of Donation								
Average Gift	LTD	Gifts/	LTD	Gift Amount/	Percentages			
	Gifts/	Donor	Gift Amount/	Donor	%	%	%	
	Donor	Index	Donor	Index	Donors	Gifts	Gift Amount	
\$21.02	8.88	321	\$186.74	372	9%	30%	34%	
\$20.55	5.45	197	\$111.91	223	4%	8%	9%	
\$22.61	6.16	223	\$139.31	277	1%	2%	2%	
\$18.97	4.55	165	\$86.36	172	5%	8%	8%	
\$15.95	3.27	118	\$52.13	104	45%	53%	47%	
					36%			
\$18.16	2.77	100	\$50.20	100	100%	100%	100%	



- What you can tell from this report?
  - Identify the best donors controlling for population size
  - Identify lapsed donors who warrant a reactivation appeal
  - Identify low dollar donors and non-donors who may be a drag on company performance

Now that you've identified donors by RFM, what's the next step?

### Strategy 2: Acquisition models

The best acquisition programs begin with an intimate knowledge of best donors. Once you identify and profile the best donors, the object is to acquire more of them. How:

- Many successful non-profit marketers employ acquisition models, zip code models and best donor “clone” models
- Another best practice is to experiment with response lists and subscriber lists in addition to list exchanges. They are more expensive, but usually more effective at delivering loyal donors and positive Return on Investment (ROI)
- Experiment with overlay information (on representative samples to begin with)
  - Understand both compiled and self-reported information
  - Caveat: don't confuse capacity to give (Income, Net Worth) which is less valuable than proclivity to give (demonstrated history of giving irrespective of affluence)
- Primary research can also provide:
  - Insight into what makes best donors tick
  - Insight into what trips their trigger

### Strategy 3: Segmentation by Donor Type

Now that you have acquired the right kinds of donors onto your database, then what?

Figure 3: Segmentation by type and relative strategies and offers

Donor Type	Strategy	Offer
Institutional givers	Acquisition	Special attention; telemarketing
Members, benefactors, patrons	Upsell	Annual giving program
High dollar donors	Retention	Personalized letters
Lapsed donors	Winback or Reactivation	Gift Survey
Buyers (bought a book, visited your museum, subscribed to your magazine, attended an event)	Conversion to donors	E-mail and low cost appeals Event sign ups
Low dollar donors, volunteers, constituents, past and present employees	Friend-raising and Advocacy	How you can help our worthy cause Website/Grass roots campaigns
Celebrities	Endorsements	Publicity

More advanced segmentation strategies

**Strategy 4: Segmentation by donor Lifetime Value**

- LTV by source of donor
- Marketing costs and ROI (Cost to raise \$1)
- Contact strategy experiments

**Strategy 5: Segmentation by statistical models**

Predictive modeling and clustering

- Statistical method of ranking donors (e.g., regression equations)
- Statistical method of clustering like donors (beyond geographic clusters and into affinities and affiliations)
- More powerful than RFM, but costly to author and update
- Prediction of response and gift amount from a specific campaign

## Checklist for success

- Build a donor database
- Use empirical facts from response analysis to LTV to make decisions (like our report template)
- Market to donors according to value (not one size fits all)
- Identify and nurture best donors
- Implement lapsed-donor trigger programs
- Lower the marketing costs for low dollar donors
- Introduce a friend-raising program
- Understand the ROI of all investments (telemarketing, direct mail, e-mail, web)
- Try response lists, not just exchanges
- Use world-class direct marketing methods (test and control groups, search engine and affiliate marketing)
- Quantify publicity
- Track and honor donor preferences; protect the privacy and security of donors

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At Massa & Company, we think of ourselves as *information architects*. Within our customized relational database environment, we analyze the building of your sales and marketing data and use the pieces to construct information on who your customers really are, what they want and how – and when – to reach them. The end result is a virtual roadmap to marketing success.

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## About Database Insight, Inc.

Database Insight, Inc. offers practical advice on how to improve your direct- and interactive marketing by deepening your understanding of your customers.

We offer consulting for direct marketing clients through exceptional people, forward thinking solutions and analytics. We bring to bear 20 years of experience understanding customers via database analysis.

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