Knowing Who Your Friends Are

Applying Alumni Behavior to Improve Fundraising Performance

Actionable Insight for Advancement Leaders

achieve more®

It may not feel like it now, but the past decade has been boom years for major gift fundraising.

Giving to nonprofits grew nicely, while giving to universities grew even more. Campaign-defining gifts peppered the headlines, staffs grew, and campaign goals escalated steadily as schools set and broke records. Measures of efficiency, examining cost per dollar raised, demonstrated that universities were among the most productive in all of fundraising. American universities became the envy of the fundraising world.

Then came what many have dubbed the Great Recession. Now what?

Clearly the top of the gift pyramid has taken a hit. Some are saying that broad-based participation may be holding up better than expected. Many university development organizations are looking at ways to reduce their current operating expenses to respond to reductions in traditional support channels.

The situation is more serious than ever before, and must be addressed with a strategy: to do more with less.

It is the season to return to your core. Your core is made up of committed constituents who have historically been the most reliable supporters. This is not measured in terms of the capacity to make a principal gift. Rather, it is measured by the reliability of giving over time. Returning to your core means going back to examine who your friends are, and building your next stage strategy on a strong foundation—friends of all ages and all capacities. As we all know, friends reveal themselves by what they do, not what they say. In this paper we will briefly introduce the principles of behavioral segmentation, as well as review three models that use these principles as the basis for building an organizational action plan.

Note: The research and findings presented here are possible due to the partnerships with Reeher LLC customers. The Reeher Platform is a software-as-a-service tool developed exclusively for higher education advancement. The Platform connects to existing donor databases to provide custom predictive models, management dashboards, prospecting tools, and a peer network of advancement leaders to help higher education fundraisers achieve more.

The Starting Point: Constituent Maps

A great strategy often begins over a map. A map can help someone understand their objective more clearly, its size and scope. The map also helps you identify the most effective path to your objective.

In our work with university fundraising leaders, we have developed three maps for donor lifetime value that are indispensable tools in determining where best to focus resources:

1. **The first map quantifies the level of financial affinity to a university.**
2. **The second is a matrix of wealth and affinity.**
3. **The third shows the operational and cost implications of different levels of wealth and affinity.**

These models are effective because they embrace the concept of “lifetime value” of constituents. They keep both the wealthy and the not-yet-wealthy in view, while also identifying the particular segments that are ripe for reductions in spending and focus.

Quantifying Affinity

When mapping prospects for fundraising, the key dimensions are capacity and inclination. Capacity is relatively easy to quantify; inclination is a more evasive appraisal. Adopting an objective, data-driven approach to estimating the level of philanthropic interest in your organization is essential. You want to know which prospects consider your organization their top philanthropic priority. We call this the "You're It!" segment.

Philanthropists often support many causes, but will choose one institution for their defining gift. "You're It!" is an affinity measurement. Gift officers get at this information in meeting with prospects, but it can be much more difficult to assess without this personal interaction. The Affinity Map helps you to determine, across a broader range of prospects, the degree to which you are among their top philanthropic priorities.
When interviewing prospective donors, you can ask them questions that help you measure their level of affinity. When you expand beyond the prospects that you can meet face to face, it becomes necessary to apply market research or predictive modeling to project affinity to segment your audience. Affinity assessment can be applied to recent graduates, leadership annual giving, or the consistent donor that you want to cultivate into a major one.

At Reeher LLC, we have developed a tool called Expected Value Index (EVI™) to quantify relative levels of affinity, as measured by financial support of a particular institution. Your organization may have adopted predictive modeling or attitudinal segmentation to begin assessing the value of these tools. However, the key to measuring affinity is to use what people do, rather than what they say. We call this "behavioral segmentation."

Time after time, we see that people say things to researchers that often run counter to their actual behavior. In particular, market researchers know that people are notoriously unreliable when answering questions about financial matters. It isn't that they are purposely lying. It is that most people find it difficult to answer hypothetical questions about what they will do with their money, rather than being asked to actually spend (or donate) it. Certain techniques have been developed for gathering more reliable data on financial behavior, but for even the largest fundraising organization, the cost of this type of research far outweighs the benefit when compared to behavioral modeling.

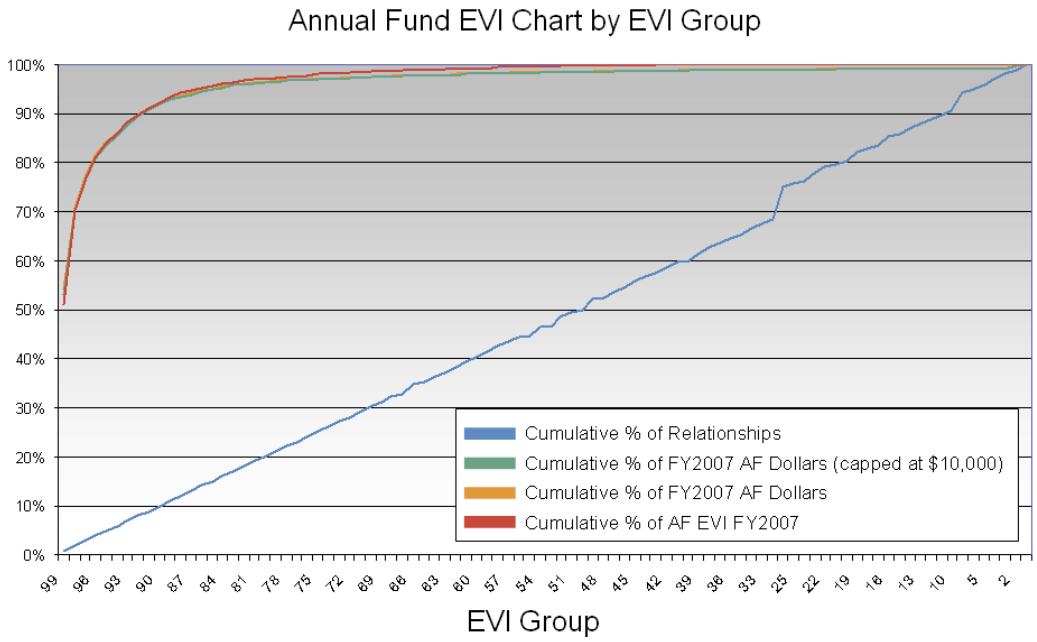
Behavioral modeling takes the history of a relationship into account. It incorporates an array of data points that can quantify one's level of financial affinity. Recent work in this area by companies like Core Group has produced some good rules of thumb, such as "Giving in the first four years after graduation is a harbinger of a major gift later in life," and "The 8th gift marks a transition to a reliable donor." Similarly, Annual Funds are narrowly focused around the recent behaviors of "Last Year but not This Year" and "Some Year but not This Year." The problem with these rules of thumb is that they are difficult to put into an operation plan. Where do we set the cut offs? How much should we spend? How long will it take to see results? These questions often keep the insight out of the operational plan. Many vice presidents have said, "I love the insight, but what do I do with it?"

Reeher LLC has developed EVI™ as a tool for building long-term development strategies based on behavioral analysis. We use a combination of demographic information and behavioral history to determine each individual's relative level of financial affinity to an institution. While every situation is different, certain actions can often be isolated through analysis and provided as an integrated factor in the overall assessment, such as

donations to annual fund, patterns in donation, attendance at events, and correspondence. We then assign these values to each constituent from the most recent graduate to the most reliable principal donor. This provides a consistent yardstick of expected performance that is essential for program planning, scorecards and goal setting.

The first step in developing a behavioral segmentation strategy is to determine this relative level of financial affinity based on behavior. To illustrate the use of this type of model in the map, we break all constituents into percentiles (ranks of 1 to 99) based on their level of expected financial support where, 1 is the lowest and 99 is the highest.

The model gains chart below illustrates the giving prediction for each percentile, and the actual amount donated for each. This diagram clearly illustrates how concentrated the support is for all universities, as well as how expensive unresponsive alumni can be. Moreover, since universities tend to spend broadly on cultivation through activities like Annual Fund and Alumni Relations, and lack of support can be so reliably predicted, it becomes clear how much of this spending is wasted. If we use this type of tool, segments of interest such as “recent grads,” “high net worth” and “higher probability to donate” can be used to reduce spending on proven non-donor audiences in order to reallocate effort to higher-yield target segments.



Sharpening the Focus – Wealth and Affinity

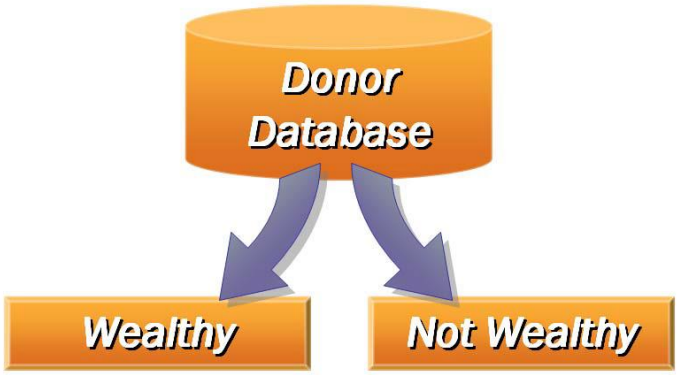
The second step is to find a good estimate of wealth for each constituent. It is important to have this wealth variable for each constituent, from the youngest to the oldest. Traditional wealth screens are not very useful here, as they are expensive and lack broad coverage. Instead, we use consumer marketing data for this type of exercise. This data doesn’t replace wealth screening on segmenting the very high end of the market, but it has the advantage of very broad coverage at a low cost. With this analysis complete, we take a university’s donor constituencies and display them across a grid to identify areas of opportunity.

	Networth	# of Relationships	You're It! AF EVI: 90+	Not You AF EVI: 45-89	Not Philanthropic AF EVI: Less than 45
Wealthy	Greater than $1,999,999	40,833	9,185	27,450	4,198
	$1,000,000 - $1,999,999	13,208	2,031	7,237	3,940
Not Wealthy	$500,000 - $999,999	15,654	1,903	7,935	5,816
	$250,000 - $499,999	31,453	2,753	15,402	13,298
	$100,000 - $249,999	18,123	968	7,774	9,381
	$50,000 - $99,999	7,781	412	2,892	4,477
	$25,000 - $49,999	3,925	155	1,296	2,474
	$10,000 - $24,999	3,685	152	1,266	2,267
	$5,000 - $9,999	1,984	92	646	1,246
	$1 - $4,999	3,665	115	1,086	2,464
	Less than $1	3,224	89	983	2,152
	Total	143,535	17,855	73,967	51,713

This model shows the groups that are targets for more major gifts, as well as the groups that are a lower priority. With these wealth and behavioral variables, you can create grids for recent graduates, reunion years, or volunteer cultivation. This grid is especially valuable for targeting prospects for fundraising. In this economy, however, the top-line donation total isn't the only important measure of success. Leaders tell us that they are challenged like never before to reduce expenses. This is where our third map comes in.

Lifetime Value Model for Fundraising Return on Investment

This map begins by dividing the donor world into two practical segments: Wealthy and Not Wealthy. Where the line falls between the two depends on your constituency, but generally we can assume “Wealthy” to be the top 10% of your alumni. Those who are not wealthy are still very important constituents. This segment has thousands who are not wealthy now but will become wealthy at some point in the future. This group needs cultivation to build affinity.



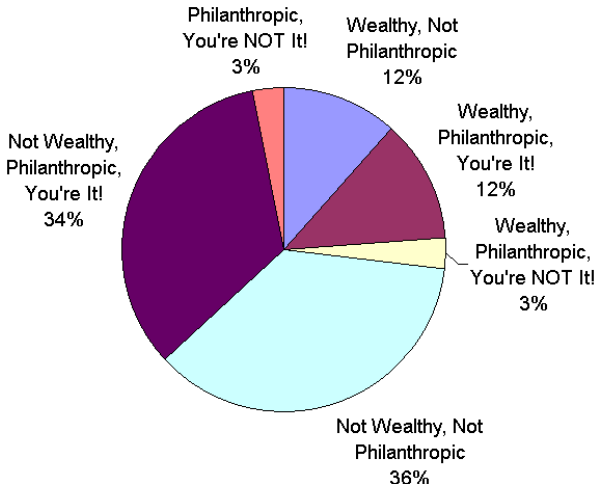
The second split is between those who donate to philanthropies and those who don’t. Interest in philanthropy is a deeply character- and value-driven priority. It is formed early on, and your best supporters also demonstrate this ethic early. This value is not dependent on wealth. In fact, in our work we find that less wealthy people consistently donate a much higher percentage of their income and net worth than wealthy segments do.

The third, and critical, split is the measure of your prospects’ philanthropic intent toward your organization. This assessment asks, for those who are wealthy and philanthropic: When are we their top philanthropic priority? When will we get the campaign-defining gift? When will it go somewhere else?

If we apply the insight from the behavioral segmentation and net worth data, this model quickly identifies several key segments for pursuit of opportunity. More importantly, it also identifies several key areas of cost reduction.

	Wealthy			Not Wealthy		
	Not Philanthropic	Philanthropic		Not Philanthropic	Philanthropic	
		You're It!	You're Not It		You're It!	You're Not It
Number of Relationships	**20,888**	**21,799**	**5,590**	**64,981**	**60,579**	**5,479**
% of Relationships	**11.65%**	**12.16%**	**3.12%**	**36.24%**	**33.78%**	**3.06%**
Considerations	Minimize variable expense	Gift Maximization, Peer Influence, Stewardship	Timeline until a priority, Overcoming competitors, Personal touch	Eliminate from strategy	"Retail" event strategy, Increase message scope, Building gifts pattern, Budget contact	Are they young enough to turn? Can we communicate cheaply?

The following shows the percentage split among the six categories in a pie chart:



For major giving, the "Wealthy, Philanthropic, You're It!" segment are the converted. They can be reliably cultivated and stewarded. At the same time, overemphasis on this group can draw attention away from those prospects who can be moved from the "Wealthy, You're NOT It!" segment.

"Wealthy, Philanthropic, You're NOT It!" are the prospects that need to be pursued and persuaded. The case for support is important. Prospect research is essential. Some officers are better at this type of "conversion-oriented" cultivation.

The "Wealthy, Not Philanthropic" segment is the spot to place people who, despite years of outreach, are not responding. Officers know who these people are because, despite many attempts, they won't take meetings or respond to appeals.

On the "Not Wealthy" side, we need to give recent graduates the opportunity to demonstrate behavior through active cultivation in the first five years after graduation. Once the behavior is demonstrated, you can begin to apply cultivation costs accordingly.

The "Not Wealthy, Not Philanthropic" segment is a great cost-reduction opportunity. These proven non-donors should be moved to contact with low-variable expense like email and web-based communication.

The "Not Wealthy, Philanthropic, You're NOT It!" segment can be cultivated, but the goal is to do so in at least a break-even way. Magazine ads, direct mail, and phone calls are

expensive forms of outreach. The goal for this segment is to find ways to build the relationship at a cost lower than their expected value. The “Not Wealthy, Philanthropic, You’re It!” segment is a group to build on. They can be cultivated for Leadership Annual Giving and Planned Giving, as well as researched to target the emerging wealth within this segment, early.

Conclusion

While the financial landscape has changed, your friends are still your friends. As you make adjustments in your organization, you will make your best choices if you begin by identifying friends of all ages, across all wealth strata. If you build your strategy based on historic behavior, you will weather this season with a stronger base for the opportunities that inevitably lie ahead.

Reeher LLC

This report has been prepared solely for informative purposes.

Reeher provides software services to help leading universities improve their fundraising performance. To find out more about Reeher, please visit **www.reeher.com**

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