

# Managing donor attrition - a new perspective

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Is it the economic downturn? The communication strategy? The acquisition channel? In-house systems? Or is it just a fact of life that over 50% of new regular giving recruits will leave in the first year? And isn't that OK when, after all, the programme is profitable and therefore self-funding? Probably all are true, to some extent.

But charities can and should do more to retain donors. The bottom line demands it, and it can't be in the best interests of the sector to keep using high-impact acquisition techniques on consumers who already feel under pressure to give.

We all know that it's far more cost-effective to keep existing donors than recruit new ones, and few business justifications beat the case for improving donor retention. So, how can we do that? First of all, what has already been done to reduce attrition in the voluntary sector – has the vaunted 'stewardship' helped, for example? What have other industries been doing to keep their customers and has it been worthwhile? Finally, how do you go about it?

## Currently

If there is one good thing to come out of the recession it is that charities are focusing more effort on keeping hard-

won donors. New stewardship programmes, and indeed whole departments, have been developed to deliver what we should have been giving anyway – good donor care that includes listening to donors and understanding them. Personal observation of the way charities treat donors compared with how commercial organisations treat their customers shows that, in general, charities' attitude towards their donors, and therefore the care they aspire to show them, far exceeds that of commercial organisations. But what is frustrating is that charities seem to lack (or chose not to use) the tools that commercial companies use to translate care into action – targeted, personalised action across a complete client base. While professing to aim for the 'segment of one', how committed are charities to actually pursuing it?

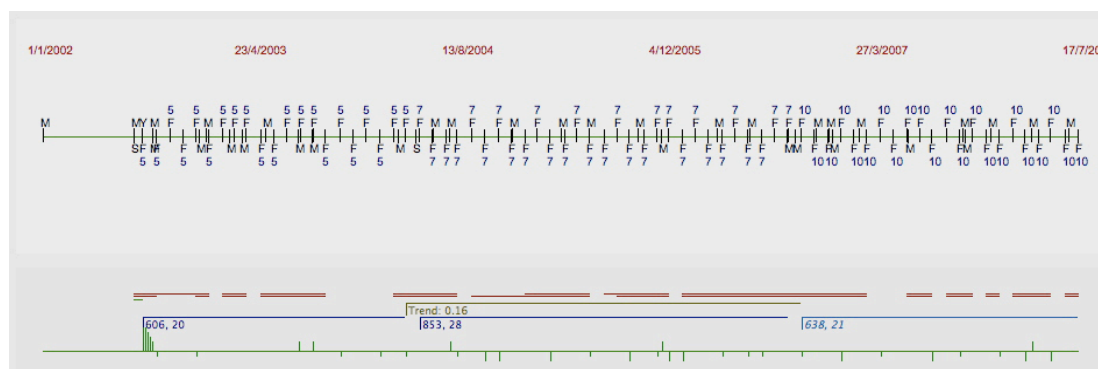
## What's possible?

Using statistics to understand propensity to attrite and predict attrition behaviour is nothing new. Most large charities already do this to some extent. But much more is possible.

The telecomms sector has

been dealing with the issue of customer churn ever since it was deregulated and experienced true competition. Fixed line telephony and cable TV were relatively high-churn services but even they were overshadowed by mobile. Just think how often you have switched your mobile contract. Telcos retain vast amounts of data about their customers and their usage habits which they have used effectively to predict churn behaviour, and have managed to achieve reductions in churn of between three and 15%. What we're describing here is not simply a matter of going through existing data looking for patterns. This has been utilised for a number of years and while it can be useful, it doesn't provide any new donor insight. Telecoms companies have, for a number of years, been utilising complex decision-modelling algorithms to simulate the decision processes that customers go through during the customer lifecycle. For charities, on top of existing data, what is needed is a deep understanding of how donors make decisions. These processes are then captured in computer models that can be adapted with the data provided by charities to model the

## Discounted Sentiment Analysis



'segment of one', the decision process model for an individual donor. These models don't just capture attrite or don't attrite type decisions either; they can be used to simulate upgrade strategies, additional gift campaigns and even compute likely lifetime value of a donor.

Likewise the financial sector, with its seemingly limitless resources, has striven to find 'alpha', that little bit of extra above the market. Here techniques draw on advanced stochastics (the mathematics that allows the separation of the random and the non-random from data) and some clever partial differential equations. These techniques can also be used by charities to analyse donor sentiment, the behaviour of donors at different points in their engagement with a charity, and remove as much of its inherent 'randomness' as possible. The results can be used to predict how donors respond to motivational factors, how you can tell when they will attrite and how you can best intervene.

So is there scope for improvement? We see potential in three areas:

### **It's the journey, not the jump off point.**

When a customer's mobile contract comes to an end, it's often too late or too costly to buy them back. But if they have a good experience with a company throughout their contract, they're more likely to stay with that company to get a fair deal and continued good services. We can translate this to charities where donor loyalty and passion for the cause are the main sources of stickiness and tangibles are less evident. Getting donors' decisions to

trend in the right direction throughout the journey presents a challenge, certainly, but also a great opportunity to retain them as donors. What we are proposing is not a one-off activity, in the way that traditional data analysis typically is. Modelling has to become a foundation of all donor lifecycle activity. For every interaction with a donor, the model should be interrogated to understand the impact, thought processes and likely response by each specific donor. This degree of profiling requires an extension to a charity's CRM environment in order to capture and make use of instantaneous donor models.

### **It's the square of the sum**

Mathematically that may be an exaggeration but the sentiment is valid. Quantitative analysis provides great insight into *when* a donor may be at risk of cancelling, but gives little help with *why*. Qualitative research helps with *why* but lacks the scale possible with quantitative research. Traditionally qualitative and quantitative approaches have been kept separate and, while they may be uncomfortable bedfellows in some ways, it's really beneficial to take a more holistic view of the donor, using the best of different sciences. New technologies make this possible.

### **It gets better and better.**

The use of machine learning technology, where computers get better at making decisions as they learn more, means that improvements in algorithms can be ongoing, taking the improvement curve to a new level. The bottom line is that

what starts well, only gets better with time.

The RSPCA has been working to apply these advanced techniques to its door-to-door acquisition programme, specifically in the areas of donor retention and maximising lifetime value. Several algorithms were produced modelling the retention and extension processes of door-to-door donors, allowing the RSPCA to make estimations of a donor's attrition point and their likely lifetime donation value. They also created a 'parts bin' of possible actions that could be brought to bear in order to counter attrition and improve donation value. This 'parts bin' was then modelled and evaluated in order that the most effective strategies could be prioritised.

But are these extra areas of improvement going to be financially viable for your organisation?

### **Figure it out**

Understanding the return any investment is expected to make is essential. Yet quantifying intangible soft returns and incorporating multiple assumptions can lead to figure-blindness where numbers end up driving the assumptions in order to clear the approvals hurdle.

So let's keep it to two simple, general assumptions that will help us to keep thought processes clear:

1. Existing marketing spend is already committed and will remain constant.
2. Income from donors is all profit (i.e. acquisition costs

are sunk costs so that, when considering attrition, any lost income is 100% lost profit).

Now we can consider the underlying value of retaining donors. All lost income comes straight off the bottom line and any costs related to tuning of how we retain donors is directly attributable to this project. Later we can consider whether some additional retention activity such as increased DM or introducing a loyalty programme would be beneficial, but for now we'll assume that we are simply tuning what we already do.

The ready-reckoner calculation simply allows us to see what benefit we get from retaining each 1% of attriters in the first year.

If the 'benefit' figure is greater than the cost of conducting the retention project we have payback within the first year. If it's less, then we need to consider how many years it will take to recoup the investment or how many percentage points improvement are required to get payback in year one (either is calculated by dividing the project cost by the benefit figure) to see if it makes sense to implement it. Generally charities with greater numbers of donors (in the tens of thousands and above) who give larger amounts (£80+ pa) will only need a very small improvement in attrition rates (c.1%) to achieve within-year payback, while smaller databases or lower gift levels will require greater improvement (2-5%).

The likely improvement will be reflected by how much work has already been done to reduce attrition, as larger charities have often already

undertaken some statistical analysis to cut attrition. So achieving bigger improvements may be easier for smaller charities as they have yet to pick the low hanging fruit. Either way, what should you expect?

Depending on where you are now, the quality of your data and how vigorously you pursue donor retention, you should expect improvements of between three and 15% in attrition rates. So, most projects will be looking at a comfortable recovery of the investment within the first year followed by significant contributions to the bottom line thereafter.

## **Setting about reducing donor attrition.**

While quite a bit of the activity can be undertaken in-house most organisations are unlikely to have the technologies and techniques that really process the figures into something coherent and manageable. A sensible compromise might therefore be to outsource the analysis and modelling work, and retain the project management and fulfilment tasks (executed in conjunction with your creative department/agency).

Start by defining a discrete attrition project (D2D, F2F, membership, etc), rather than attempting to cover all recruitment channels, as this will enable the project to gain approval faster, start sooner, progress faster and deliver returns earlier. It will also provide easier justification and benchmarking for tackling the next area.

Next profile the decision-making processes that your donors make when deciding to give. Undertake a thorough

data analysis and modelling process that aims to understand not only what factors motivate your donors but also how these motivational factors evolve with time and with the donor life-cycle. Use third party social and market data to improve accuracy of the modelling phase and develop models to simulate the donor life-cycle. Workshop the findings to identify possible options which are then modelled and 'scored'.

Now is the time to reassess the Rol of the preferred options using more detailed assumptions. You may also want to implement an ongoing process (ideally machine learning) that continually evolves to provide you with ever-improving donor retention and life-cycle value.

Assuming you decide to outsource the analysis and modelling, select a specialist retention analyst/advisor that is innovative and understands charity donors rather than a 'me-too' data cruncher. Do they have a model that makes sense to you? Can it incorporate any behavioural insights you have, or will they assimilate new qualitative research to enhance the value of the quantitative analysis? Do they have advanced attrition models for the non-profit sector (i.e. more than just basic statistics) and do they have the capacity to manage large amounts of data on a regular basis?

These projects are complex and you need to cover off: business and data briefing, confirmation of project scope, milestones, dependencies etc. You will need workshops to cover presentation of findings, brainstorming of ideas, strategy selection, and implementation

of the intervention programme. Finally you need to decide how to monitor effectiveness/fine tuning and how to take the process forward or how to handle project closure. A project like this can take 12-24 weeks depending on priorities after which the implementation/monitoring will be ongoing.

A key question to ask yourself is in what format you want to get the analysis outputs. Do you want your algorithms in the raw so that you can build them into your systems, as a separate software solution or simply as regular 'target lists' (eg monthly '@risk lists' where you specify the capacity that your retention team call centre can handle)?

Finally, the cost. Obviously this depends greatly on scope (number of projects if more than one) and the amount, if any, of primary research required and then, to a lesser extent, on the volume and quality of your data. As the analysis work is generally fairly constant regardless of the number of donors in question, the price doesn't tend to reduce much for smaller charities. Charities with larger donor files should easily get payback within the first year based on even the most pessimistic improvement assumption, while smaller charities will need to see bigger, albeit very achievable, improvements to break even in year one.

## What will you be able to do that's new?

Having the data, possibly in the form of monthly '@risk lists', is all well and good, but how you interpret the results and implement the intervention techniques will decide just how effective the programme will be in reducing attrition. You will be able to:

- Deliver optimal communications with your donors based on what they overtly say they want and also on what their behaviour, their characteristics and their traits communicate they want, allowing you to communicate at the right time, in the right format and with the right message – individually.
- Know where to focus DM spend and where to save resources, knowing what the lifetime value predictions for individual donors are.
- Recognise activity for any individual that leads to attrition. Intercept it and encourage preferred behaviour.
- Use the same approach to move beyond donor retention into upgrade, additional giving, new products, other support, etc.

- Inform acquisition process to recruit donors more likely to be of higher value
- And, most importantly, use the newly retained income for the real reason you exist.

## Conclusion

We started by asking why donors keep on attriting. We already knew that there are numerous reasons, often complexly interdependent and different for each donor, and we acknowledge that some attrition is inevitable. However, what we have seen is that we can do much more to retain donors – new models, new ideas, new techniques, new technologies – and that it makes economic sense to do it. So we have to conclude that we are still losing donors simply because we are not doing everything economically viable that we can to keep them. That may be an uncomfortable outcome, but if the voluntary sector can make use of the new tools available to translate the care attitude it has for its donors, then attrition will reduce.

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Benefit per 1% reduction =  $0.01 \times \text{no. of attriters} \times \text{average annual giving in donor attrition}$