

Bad Times Often Lead to Bad Decisions

One of the unfortunate offshoots of the difficult economic times in which we live today is that development officers and nonprofit leaders are under enormous pressure to cut costs in the face of declining revenue. All too often, this leads to really bad decisions not unlike what is called in urban politics a "cycle of cumulative deterioration." It happens in city neighborhoods when a store or business closes, a house goes up for sale, someone looks around and thinks the neighborhood is "going down hill" and puts their house up for sale, another business begins to feel uncertain and decides to move and the cycle continues and feeds upon itself. It doesn't take long for a once-thriving neighborhood to be called "blighted."

That can happen in fundraising too. In the December 11, 2008 edition of the *Chronicle of Philanthropy*, the article "Trying to Spread the Giving Spirit" surveyed what various charities were doing to "ensure that donations flow over the holidays." Unfortunately, the article was short on new or innovative ideas for nonprofit mailers and long on various cutbacks and economies that some groups seem to think made a lot of sense.

Of course, cutting the costs of direct mail appeals sounds like a great idea -- just eliminate some of that wasteful, low-hanging fruit. So what, specifically, did these groups have in mind?

The Chronicle identifies three ideas that, I assume, they hope others might emulate in "How Charities are Taking Action" and "What's Behind the New Approach?" Permit me to offer my own, third review of each idea...

- ▶ *Reducing the size of mailing lists. The American Heart Association cut the number of pieces it sent to potential supporters by 20 percent. Getting rid of 14 million pieces of mail reduced the charity's costs by \$3 million.*

What's behind the approach? Because the charity focused its appeals only on those with the greatest potential to give, the overall results are stronger. Thirty-four percent more new donors are giving compared to last year. And the size of their average gift has risen by 7 percent, to \$15.57. Still, the charity's overall results from direct mail are lagging \$1 million behind last year.

What I think... I think these numbers don't make sense. If everything went up, why did revenue go down \$1 million? The fact that folks are giving more frequently and higher amounts has nothing to do with the number of pieces mailed. It may, indeed, have made sense to cut marginal lists and pull back on prospecting for overall budgetary reasons. If so, defend the decision and move on, but don't involve other, unrelated results to justify the decision. And, by the way, given the cutback in prospecting, prepare yourself for a continuing downturn in revenue in 2009 since you now lack the influx of new donors you need to see revenue grow.

- ▶ *Combining Appeals. The Mint Museum of Art, in Charlotte, NC, is combining three solicitations into one year-end mailing: its annual fund appeal, another solicitation that urges recipients to buy museum memberships for friends and family members, and a third request for gifts of at least \$1,000 to offset the cost of bringing a work of art to the museum.*

What's behind the new approach? Stacy Sumner Jesso, director of development, estimates the museum saved \$5,000 with the combined mailing.

What I think... This is a dangerous move without any testing to back it up. She may have saved \$5,000, but she needs to consider how much revenue she potentially loses by combining three entirely different messages and appeals into one, likely now a disjointed and confusing mailing? And given that most donors make giving decisions spontaneously, fewer opportunities to contribute usually means fewer dollars for her organization.

- ▶ *Jettisoning long letters. Catholic Charities USA has replaced its traditional year-end letter to donors with a postcard bearing photographs of people who are hungry, homeless, in ill health, and working but not getting by. Turning the card over, recipients read: "Each day, more of our neighbors feel the reality of poverty." The message ends with instructions on how to give online, by telephone, or through the mail.*

What's behind the new approach? Patricia Hvidston, the charity's senior director of development, says the postcard was 48 percent cheaper to produce than a traditional year-end letter, not counting savings in postage. But cutting costs was not the only motivation for departing from Catholic Charities' regular year-end letter, a more polite appeal stressing the holiday giving spirit. The organization chose a starker message and photographs after a fall survey of local Catholic charity affiliates revealed sharp declines in donations and soaring increases in demand for food, shelter, and financial aid.

What I think... This is by far the worst one of all. It violates virtually every significant principle of successful, proven direct mail fundraising, it would seem, to fulfill some misguided notion that "long letters don't work." Not only do we jettison long letters, we jettison the ability of direct mail donors to easily contribute to a cause they care about. Armed with their survey results, Catholic Charities has chosen to virtually guarantee that there will be less money available in the face of rising demand. They needed a message change and sharper images to replace a dated year-end letter. But rather than write a new letter, tell a compelling story, perhaps include a photo of one or more people who need their help, plus a reply card and reply envelope so folks won't have to work in order to give, they took the reckless course of pursuing an untested strategy that I can virtually guarantee will generate fewer donors, less dollars, and less net revenue for the cause they claim to care so much about.

Year-end letters provide nonprofits with an opportunity to develop a case for giving during a season when donors are more inclined to read letters from the organizations they support. An effective letter moves donors to take immediate action; the reply form is enclosed to reinforce the core message of the letter and close the transaction – quickly and easily. Asking donors to hand-address an envelope, pick up the phone or log onto a website adds another step to the process – a step that many donors may not take, especially in the absence of a compelling argument to give.

Finally, many nonprofits, acutely aware of what a bad last quarter of the year will mean to their annual campaigns, have also rushed out appeals that reflect their own anxieties and concerns about the worsening economy.

What I think... It is important to remember that each direct mail piece is part of a larger conversation with your donors. Sending out a hysterical or desperate letter (remember the one sent to the person who just dropped you – the kind that advice columnists tell you to set aside and reread in the morning?) – will certainly impact the dynamic of the relationship you have with your donors.

Sharing the intimate details of your financial situation -- or even suggesting that insolvency is around the corner – may attract a few life-saving gifts from your benefactors, but it's important to imagine how that message will play with your other donors. The reality is that donors tend to fall on a wide spectrum representing various levels of commitment to and understanding of the organizations to which they contribute. Donors in the early stages of a relationship with your organization, or those with a tentative connection, may lose confidence in your stewardship of their hard-earned contributions. In a recent survey by the *Los Angeles Times*, folks were asked, "If you were buying a new car, would you be willing to purchase a car made by an automaker under bankruptcy protection?" The majority – 52% -- said "no." Is there any reason to believe that the response would be different if they were asked a similar question about a nonprofit they support? When the focus of your conversation shifts from helping animals or children, for instance, to keeping your doors open, don't be surprised if donors start looking for a more stable relationship.

Most charitable organizations have been pinched by the economic crisis. Thousands – hundreds of thousands, even millions – of dollars critical to their continued operations have been lost in the stock market. Corporations and foundations have downgraded their support and reneged on their pledges. The number of contributions from individual donors has dropped and their contribution amounts have declined. Nonprofits are trimming their operating costs, streamlining or eliminating programs, freezing salaries and laying off staff. These are bad times.

Make no mistake -- every nonprofit should be looking for ways to reduce its direct mail costs. The danger, of course, is making knee-jerk decisions that seem sensible on the surface, but have the potential to profoundly impact direct marketing revenues in both the short and long term.

Test. Don't panic. And remember that cost cutting is only desirable if it contributes to higher (or stable) net revenues.