

Short Term Impact, Long Term Doom:
The Paradox of Optimizing the Number of Solicitations
in Direct Marketing Fundraising

Arnaud De Bruyn*
ESSEC Business School

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* Arnaud De Bruyn, Assistant Professor of Marketing, ESSEC Business School, Avenue Bernard Hirsch, 95000 Cergy, France. Email: debruynd@essec.fr. Tel.: 33 (0)1 34 43 32 46. Fax: 33 (0)1 34 43 32 11.

**SHORT TERM IMPACT, LONG TERM DOOM:
THE PARADOX OF OPTIMIZING THE NUMBER OF SOLICITATIONS
IN DIRECT MARKETING FUNDRAISING**

Abstract – We first discuss the apparent contradiction between the short-term and long-term impact of changes in solicitation strategy (number of solicitations sent per year) on charities’ economic performance. While to increase the number of solicitations per year has significant impact on a charity’s resources, such relationship does not seem to be as strong in the longer term as it is in the short term. We suggest that this phenomenon might partly be due to donors’ over-reacting to changes in solicitation strategy in the short term, while adjusting their donating behavior in the long term. We present the foundation for a reconciling theoretical model, and conclude with managerial implications (and warnings) for nonprofit marketing managers.

Keywords – Nonprofit marketing, direct marketing fundraising, direct mail, solicitation strategy

1. INTRODUCTION

The solicitation of donations through direct mail is an important source of revenues for non-profit and charitable organizations. In the US alone, direct mail is the medium that accounts for between \$20 billion and \$25 billion of the charitable educational and social change dollars contributed annually (Lister 2001, p.2).

Direct marketing managers in charitable organizations typically solicit donations from large databases of potential and past donors. Each solicitation has a cost attached to it, and both likelihood of donation and donation amount are donor-specific, so that it is critical for the direct marketing manager to identify the most likely (and high value) donors in the database. Decision-support systems built on RFM-like (Recency Frequency Monetary value) models are often used by direct marketing managers to maximize expected net revenues by segmenting and targeting high potential donors, while avoiding the costs of soliciting those with little donation potential. Those technologies are widely spread in the industry and are quite effective to select the best donors for a given direct mail campaign.

A more puzzling question remains as to *how often* donors should be solicited, that is, how many direct mail campaigns should be planned per year. This question poses several challenges. First, many charitable organizations believe that they should avoid ‘over-soliciting’ their donors, because doing so might deteriorate their brand image, irritate and wear-out long-time supporters, and eventually adversely affect revenues – even though the true threshold and economic impact of ‘over-soliciting’ is largely unknown. Second, to increase the number of direct mail solicitations in a year is known to affect the performance of the remaining campaigns; some donors might simply *move* their donation dollars from one campaign to another. The dynamics and net effects of increasing the number of direct mail campaigns are hard to measure. Finally and most importantly, we lack data to answer this question, and rare are the charitable organizations that have purposely conducted large-scale experiments to measure the net impact of varying the frequency of solicitations sent to their donors. (Beside, we will see later that the results of such experiments

might be misleading) This lack of data makes ‘model fitting’ exercises difficult, and the literature provides only a few instances where this problem has been addressed econometrically¹.

To find the optimal frequency of solicitation is a critical problem for most charitable organizations. *Too many* solicitations and their budget allocation would be inefficient; *Too few* and they would leave money on the table, harvesting only portion of their donors database potential. In the absence of sufficient data to tackle this problem econometrically, we suggest an experience-based approach as follows. In the next section, we first single out two recurring observations gathered over a ten-year period of consulting practice in the domain of direct marketing fundraising, period over which the author collaborated with charitable and not-for-profit organizations such as the Red Cross, the Salvation Army, Telethon, cancer treatment and medical research foundations, animal welfare charities, political organizations, etc. We observed that long-term solicitation strategy had little impact on long-term fundraising performance, yet *changes* in solicitation strategy had a significant impact, at least in the short term, which is somewhat contradictory. In the third section, we build on the existing literature and propose a theoretical model that may offer the promise of a solution to reconcile such apparently inconsistent observations. Specifically, we show that what the charities we have worked with have experienced over the years is consistent with donors ‘over-reacting’ in the short term to a change in charity’s solicitation strategy, even though they tend to smooth their donation behavior in the long term. If the theoretical model we posit is an accurate reflection of donors’ true underlying behavior, non-profit organizations optimizing short term net revenues are doomed to be greatly inefficient in the long term, suffering from a paradox – short term optimization will lead to a very unoptimal solution in the long term. In the fourth and final section, we draw conclusions, emphasize managerial insights, and sketch out a research program in this domain.

2. OBSERVATIONS

2.1 Long-term solicitation strategy and fundraising performance

In practice, the number of solicitations sent to ‘warm donors’² vary greatly from one charitable organization to another. This figure could go as low as one a year, to as high as 10 or 12 a year. However, there is no clear historical relationship between the numbers of solicitations and charities’ resources from direct marketing. Most charities solicit their donors 6 or 8 times a year. Yet, a cancer institute we have worked with has sent 4 solicitations a year for decades, and is one of the most supported charities in France. The largest medical research foundation in France solicits its donors database twice a year only. This leads us to establish Fact 1.

Fact 1 A charity’s long-term fundraising performance does not seem to be highly impacted by its long-term solicitation strategy (number of direct mails per year)

¹ Elsner, Krafft and Huchzermeier (2003) rely on an elaborate market-testing, but somewhat ad hoc procedure to determine the optimal frequency of mailing catalogs; Piersma and Jonker (2000) use dynamic stochastic programming to address this same problem within the context of a nonprofit organization.

² The term ‘warm donor’ refers to an individual who has made a donation within the last 2 or 3 years to the charity. These donors have usually the highest potential, and constitute the ‘core’ of most direct mail fundraising strategies.

2.2 Change in solicitation strategy and short-term fundraising performance

Recently, partly due to higher competitive pressure among charities, several organizations have become more aggressive in their solicitation strategy. Many charities have increased the number of solicitations sent to their most active donors, usually experiencing a significant increase in their revenues. A social welfare charity went from 4 to between 6 and 9 direct mail solicitations a year, depending on donor segments, and has increased revenues by 60% in 3 years. An animal welfare foundation has shifted from 4 to 6 solicitations a year, and has dramatically increased donations through direct marketing, doubling net revenues in 4 years. While apparently inconsistent with Fact 1, these recent developments in the industry lead us to Fact 2.

Fact 2 A charity's short-term fundraising is usually highly impacted by recent changes in its solicitation strategy.

While these two facts are seemingly contradictory, we will attempt to offer a reconciling theoretical model in the next section.

3. THEORETICAL MODEL

Many factors explain donating behavior, such as donor's disposable income, perceived match between donor's and charity's values, and *perceived charity's needs*; with regard to the latter, a donor is more likely to make a donation to a charity that he perceives to be in great needs, that is, where the donation would make the biggest difference.

While a charity may use various mechanisms to convey the idea that its needs are important and increasing (advertising campaigns, message copy, etc.), the most obvious one is to *ask* for more money than usual, that is, to solicit its donors more often. From the donor's point of view, a sudden increase in the number of solicitations he receives per year may convey the idea that the charity has important unmet needs, hence increasing likelihood of donation.

In the long run, however, if this increase in frequency of solicitations were not perceived to be fully justified by a change in the conditions in which the charity operates, donors would probably review their estimations of the charity's needs and adjust their donating behavior accordingly. While more solicitations will continue to generate more donations, the differential impact will probably diminish over time. Eventually, since more solicitations cost more money to the charity, the lower-than-expected increase in fundraising might not be sufficient to justify the additional costs of sending more solicitations, and the charity's long-term profitability might be adversely affected, as shown in Exhibit 1. In short, while to increase the number of solicitations might be justified by short-term increase of fundraising (i.e., donors over-react to sudden changes in the number of solicitations they receive per year), donors will eventually adjust their behavior, giving less money over time, and leading to a less-than-optimal solution for the charity.

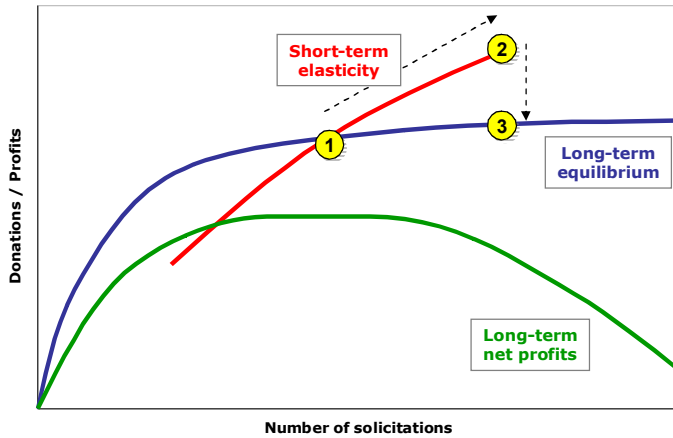


Exhibit 1 – Consistent with FACT 2, and due to a steep short-term elasticity of donors’ donating behavior to changes in frequency of solicitations, to increase the number of solicitations will have an important impact on immediate charity’s net profits (① ⇒ ②). However, consistent with FACT 1, donating behavior is much less sensitive to solicitation strategy in the long term. Donors will eventually adapt their behavior, and converge to a long-term equilibrium (② ⇒ ③), eventually leading to less profits than in ① (about the same level of fundraising, but with much higher operating costs due to additional solicitations).

Notice that, when donors begin to adapt their donating in the long-term, the charity is in no position to go back to its initial solicitation strategy. Because donors probably over-react both positively and negatively in the short term, to decrease the number of solicitations would probably have a huge, negative impact in the short term resources of the charity (even though it might smooth away within a few years), something that most charities cannot afford.

In Exhibit 2, we show an example of such “short-term impact, long-term doom” phenomenon. A major social welfare charity used to solicit its donors about 3 times a year, and achieved consistent (and quite good) results over the years, with a donation-per-warm-donor-per-year ratio of about .50 to .60 (a .60 ratio is equivalent to say, 60% of warm donors making 1 donation a year, and 40% making no donation at all). In the year 2000, they decided to increase the number of solicitations from 3 to 4, and experienced a very significant increase in fundraising, increasing the ratio very profitably to a .74 figure. Based on this success, they increased again in 2001 (5 solicitations a year), and then again in 2002 (7 solicitations), with an ever increasing profitability. This is consistent with Fact 2: “*a charity’s short-term fundraising is usually highly impacted by recent changes in its solicitation strategy*”.

However, beginning in 2003, and then again in 2004, results seriously deteriorated, going from a ratio of 1.13 to 1.02 in a year, and then again down to .95 the year after. The number of donations per donors was lower in 2004 (.95 with 7 solicitations a year) than those observed in 2001 (.96 with 5 solicitations only). It seems that donors over-reacted in the short term to changes in solicitation strategy, giving the charity’s managers the impression that such changes would be highly profitable in the long term. But as soon as the solicitation strategy settled down, donors began to adjust their behavior and give less money, consistent with Fact 1: “*a charity’s long-term fundraising performance does not seem to be highly impacted by its long-term solicitation strategy*”. While figures for 2005 were not fully available at the time of this writing, it seems that the trend continued even further. The charity is now stuck with an ever decreasing fundraising (donors’ behavior is rapidly adjusting), and yet an almost doubled marketing budget compared to 6 years ago.

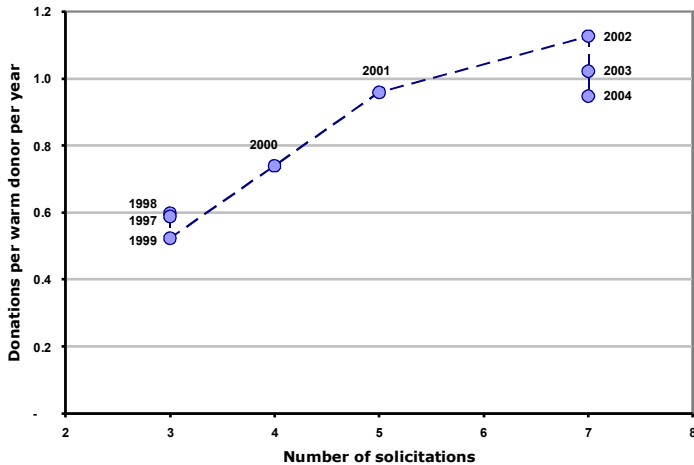


Exhibit 2 – this figure illustrates how changes in a charity’s solicitation strategy might greatly increase its fundraising in the short term. Yet, in the longer term, donors’ behavior tends to adjust, and such changes might not remain as profitable. Short-term revenue optimization might lead to a costly and suboptimal solution a few years down the road.

4. CONCLUSIONS

In this paper, we have first discussed the apparent contradiction between the short-term and long-term impact of changes of solicitation strategy on a charity’s financial performance. While to increase (and possibly decrease) the number of solicitations sent per year has a significant impact on a charity’s fundraising, such relationship does not seem to hold in the longer term. We have then suggested that this might be due to donors’ over-reacting to changes in solicitation strategy in the short term, while adjusting their donating behavior in the long term, and offered the premises of a theoretical model in Exhibit 1. Exhibit 2 illustrates such phenomenon with an example observed in the industry (anonymity of the charity has been granted for confidentiality reasons).

If this model were an appropriate representation of how donors’ behavior reacted and adjusted to changes of a charity’s solicitation strategy, our hypothesis would have serious managerial implications. First, most if not all optimization models based on measuring donors’ elasticity to changes in solicitation strategy would be misleading, since this elasticity is much steeper in the short term than in the long term. Such models would recommend increasing marketing pressure, which would eventually lead to an over-soliciting strategy. The same could be said about charities conducting large-scale experiments (e.g., soliciting some of their warm donors X times a year, and others Y times a year, to measure differences in profitability). Such experiments would be highly misleading, measuring short-term elasticity only.

Another conclusion of this preliminary work would be that methods attempting to find the long-term optimal solution, as well as measuring long-term donors’ elasticity, remain to be found. This domain offers an interesting avenue for academic research, and would have important social and societal implications to better optimize charities’ marketing budget. Such methods might involve judgmental calibration, cross-industry meta-calibration and benchmarking, or more refined psychometric models of donating behavior at an individual, microeconomic level. We hope to have more to say on this topic soon.