



## Full Length Article

# To retain? To upgrade? The effects of direct mail on regular donation behavior



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## ABSTRACT

In this paper, we look at the donation behavior of donors who periodically contribute a preset amount to a particular charity. The charity firm makes extensive use of direct mail to nurture these donors, and in fact sends two types of mails, one that seeks to retain the donors (retention-seeking mails) and the other requesting them to upgrade their donation amount (upgrade-seeking mails). We study the different effects of the two types of direct mail on the donation behavior. To these mails, a donor has to respond by making two decisions: “should I continue donating or not?” and “should I upgrade or not?” We propose a multi-response model that accommodates not only the differential effects of the two types of mail on the donors, but also the possible correlation across the two response functions for each donor. We fit our model to a very large data set to explore whether our model can extract the unique impact of demographics and those of the two types of mail on the two aspects of donation behavior. What makes it more interesting is that the charity firm deliberately uses the observed donation behavior of people to design the two types of mail. In our model and estimation, we explicitly account for this endogenous effect to ensure that we measure the unbiased impact of the two types of mail on the two responses of the donors. Our results show that once we account for the endogenous effect and separately model the effect of different types of mail on each type of donor response, we get a much clearer picture of the “true” effects of these mails, as opposed to a simpler model that does not incorporate these effects. Firms are advised to not only carefully analyze the donation behavior of the donors but also carry out simulation exercises to understand the effects of mails in totality before taking action.

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## 1. Introduction

Direct mail is used as an important marketing tool by various companies to advertise their products, recruit new customers and enhance their relationships with existing customers. Even though direct mail is an expensive medium, it has a high response rate and hence is popular with firms (Turner, 2009). In 2012, marketers, both commercial and non-profit, spent \$168.5 billion on direct marketing, and this accounted for 52.7% of total advertising expenditure in the United States. Direct mail had a response rate of 3.4%, which is roughly 30 times that of email (DMA, 2012). 54.5% and 67.5% of US households read, looked at or set aside for future reading letter-sized and larger sized envelope mail respectively. The statistics also show that in 2012, the most marketing dollars (\$51.1 million) were spent on direct mail, which generated revenue of \$642.4 million, almost double the revenue generated from other media (DMA, 2013).

These figures show how important this particular marketing instrument is for the firms even in the digital era.

Direct mail has long been successfully used by non-profit organizations to raise money from donors. In fact, it is the marketing tool that is most often employed by these firms to garner donations from individual members of a society. Twenty-one percent of Americans cited direct mail as the prompt for their most recent gift, with the medium being particularly effective among older people and lower income households (YouGov, 2013). In addition to soliciting donations, firms use direct mail to communicate and thereby build relationships with their donors. Such relationships help the firms receive continuous support from donors. Firms solicit donations from their donors in one of two ways. Usually, they approach donors from time to time seeking one-time donations for some specific cause. In other cases, firms ask their donors to sign up for a recurring donation scheme if the objective is to help a long-run cause such as education for poor children or kidney dialysis for poor patients. In the latter scenario, once a donor has signed up, a fixed amount will be automatically deducted from her<sup>2</sup> bank account or charged to her credit card every month (or at other pre-specified

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<sup>2</sup> For the sake of convenience, we use female gender to refer to the donors during the discussions.

regular period) until the donor opts out of the scheme. Many donors like this automatic procedure because it saves them the trouble of remembering to write a check and mailing it to the firm every month. The firms periodically communicate with the donors through mail informing them how the donation money is being used and to what end. Such informative mail gives the donors a sense of assurance and satisfaction that their money is put to good use, and thereby ensures that they do not drop out of the program. Thus, the objective of the mail is to *retain* the donors in the regular donation scheme. These retention-seeking mails thus form the core of the retention strategy.

At the same time, however, firms may also try to encourage their donors to *increase* their monthly contribution while maintaining their patronage. Such upgrade-seeking mails are designed differently from retention-seeking mail (Sargeant, 1999; Squires, 1994) because they need to evoke different kinds of emotion and appeal (Small & Verrochi, 2009).

Non-profit firms are aware that their mails have the potential to influence the donation behavior of people and that different people are influenced differently by the mail. Hence, some of these firms use sophisticated methods to identify which donor should receive what type of mail at what time, instead of blindly sending all mail to all donors (Lee, 2001). Specifically, they analyze the response behavior of various donors, develop an informal set of rules about donor responses and draw up targeting plans for a given retention-seeking or upgrade-seeking type of mail. Apart from forming such explicit rules, firms also tend to develop relationships with their donors to such an extent that they gain some insight and wisdom on specific donor behavior, such as why some donors donate larger amounts or more frequently than others. Firms also use these insights when making mailing decisions.

The presence of such explicit targeting plans and tacit influences implies two things. First, there could be some unobservable donor level factors that affect the propensity to donate, resulting in unobserved heterogeneity across donors. Secondly, there could be some donor-specific factors unobservable to a researcher but known to the firm that affect both the donation behavior of a donor and the firm's mailing decisions. Hence there is reason to suspect some degree of correlation between the unobserved factors affecting donor responses and the mail received by a donor, and this points to the endogenous nature of the processes that we study here. Hence, any analysis that seeks to estimate the effect of direct mail on donation behavior should account for these two issues, failing which, we will get biased estimates of the impact of mail on donation behavior.

Our research has two main objectives. Studying the impact of different types of mail on a donor is the first objective of our research. That firms design and send different mail types to different donors implicitly assumes that each mail type will have its own unique impact on a donor. Researchers however typically ignore the differences across the various types of mail, clump them all together into one bundle and study the effect of that bundle on the customers. In this research, for the first time to our knowledge, we study the unique impact of each mail type.

Our second objective has to do with the fact that there are two seemingly parallel but inter-related decisions involved in donation behavior, namely, 'continue donating or drop out' and 'upgrade to a higher donation amount or not.' These two decisions have not been studied within an integrated framework in marketing so far. It is not clear whether the two decisions are affected differently by the demographic characteristics of a donor or by the different mails sent by the firms. Given that we can study both decisions involved with the donation behavior, one may also wonder if both decisions are intrinsically interrelated since they pertain to the same donor. For example, a donor may be more predisposed to giving money to charity than others, and this may affect the decisions of the donor but remain unobservable to a researcher and the firm. Further, some degree of inter-relationship can be expected to explicitly exist between the two decisions but this is not easy to decipher. For example, one can argue that a donor about to drop out would have less intention to upgrade or counter-argue that a donor

will not think about dropping out when she considers upgrading. This implies that the two decisions are implicitly inter-related to some degree. In order to ensure maximum flexibility while accommodating this interaction, we allow the unobserved factors in the donor response functions as well as the mailing functions to be explicitly correlated with each other in our estimation process. Thus the second objective of our research is to study the two decision processes that are explicitly different from each other but carry a certain degree of implicit but unobservable relationship between them. Our finding will throw more light on the finer aspects of the donation behavior of a donor and hence will be useful for charity firms as such. Of course, this has to be analyzed along with the impact of the different mail types in an integrated framework that also accounts for the endogenous relationship between donor responses and mails received.

Our paper is organized into the following sections. In Section 2, we relate the current work to key results found in related literature in the areas of non-profit marketing and direct mailing. In Section 3, we describe in detail our unique data set and its features. In Section 4, we present the model, do the estimation and provide the results. In Section 5, we conclude the paper and suggest directions for future research.

## 2. Literature survey

Our focus is on non-profit firms that primarily use direct mail to influence the donation behavior of their donors. In Table 1, we provide an overview of the literature in marketing related to our work and its contrast with our work. We give emphasis to papers that have dealt specifically with non-profit fund raising as well as papers from direct marketing that are directly related to our work, and lay out how our work incorporates and improves upon the existing research.

The work of Donkers, Paap, Jonker, and Frances (2006) was one of the early papers that took endogeneity in mailings into account and thus examined the unbiased effect of donor decision processes. They use the Tobit II model for modeling the donor responses and use the Probit model for the mailing decisions made by the charity. Van Diepen, Donkers, and Franses (2009a) added another dimension by incorporating competitive dynamics in mailings from multiple charities and the responses of the donors in the presence of these multiple mailings. They show that mailings that reached out to people who were already donating to those charities resulted in a negative response in the donors, which may be due to what is called the 'irritation effect.' Interestingly, they found that a competitor's mail began with a positive response from the donors but resulted in a negative response beyond a certain point. The authors also carried out field experiments to further explore this issue and found that the 'irritation effect' did not impact the eventual donation behavior (Van Diepen, Donkers, & Franses, 2009b). The extant empirical research assumes that all the mails sent by a firm have just one common effect on the consumers. However, it has been widely acknowledged that firms deliberately send out mail of different types that vary in their emotional content, layout and appeal, to elicit different responses from the donors (Aune & Basil, 1994; Chang & Lee, 2009; Desmet & Feinberg, 2003; Small & Verrochi, 2009; White & Pelozo, 2009). Thus, in our paper we want to empirically account for and separate the various effects of the different appeals (retention vs. upgrade) on a donor's behavior.

Netzer, Latin, and Srinivasan (2008) look at a different set-up where a potential donor gradually moves across three stages, i.e. from a dormant state to an eventual actively donating state. They model the customer shifting across the three stages as a Hidden Markov Model and analyze how this gradual shifting is affected by the firm's marketing activities. In contrast, in our data set, the donor joins the program directly in an active state. Once she agrees to be a donor, a periodical contribution would automatically be deducted from her bank account and the process will continue until she opts out. Although the results from Netzer et al. (2008) paper are not directly relevant for our research,

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