

Improving Campaign Success Rate by Tailoring Donation Requests along the Donor Lifecycle

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Abstract

Since charitable fundraising relies heavily on direct mail, this paper studies how tailoring donation requests along the donor lifecycle could improve campaign success rate. Our field study provides a unique combination of three parameters whose combined interaction has not been studied to this date: donor segment, suggested personalized donation amount and social comparison, resulting in a $3 \times 3 \times 2$ between-subjects design. Taking into account the donor's zone of acceptable prices, we show that for acquiring and reactivating donors the use of a recently suggested donation amount is most effective, whereas for retaining donors, it is preferred to use an average amount. Our results also demonstrate that social comparison is an excellent acquisition strategy, but that it could be harmful when reactivating lapsed donors. Social comparison was not found to have an effect on the donation behavior of current donors.

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Introduction

Charities have a vested interest in improving their direct mail fundraising campaigns. These strategies mainly focus on optimizing the target selection (e.g., Malthouse and Derenthal 2008), as well as on the content of the appeal (e.g., Berger and Smith 1997). Target selection is traditionally approached by RFM models (i.e., recency, frequency and monetary value) aimed at predicting response behavior to determine whom to mail. Studying content is useful to determine what message to communicate to potential donors. Here, requesting a specific donation amount (SDA) has become a frequently used strategy in professional fundraising: direct mail for fundraising often proposes a specific donation amount, commonly an identical amount, at least per segment, for all potential donors. However, this approach ignores that each individual may have different

decision criteria based on previous experience. Moreover, with very low additional costs, personalized donation suggestions are relatively easy to calculate as historical transactional data are stored in the database. In addition, the SDA could also be complemented with social comparison: referring to others who are donating.

With the increasing implementation of SDA in letters soliciting fundraising, the question now is to establish what type of donation request is best to suggest to each type of donor, based on their previous behavior. Options here are the choice of donation level (SDA) and the option to mention donations made by other donors. More specifically, we want to explore how these different types of donation requests possibly influence campaign success rate in terms of response rate, donation size, and overall revenue. For fundraising management, these three dependent measures are considered to achieve maximum effect for the specific campaign objective: in acquisition campaigns, for example, maximizing the response rate is more important than maximizing the size of the donations.

Research has demonstrated that SDA, social comparison or characteristics of the segment influence donation behavior. Yet,

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key aspects for understanding this interaction remain unexplored. First, previous studies have examined the influence of SDA on consumer behavior such as donation behavior, without accounting, however, for adaptation-level theory (Helson 1964). As a result, we have little information on the effectiveness of different personalized suggested donations. Second, previous research on social comparison in fundraising has focused generally on referring to a specific donation amount of another donor (e.g., Croson and Shang 2008). It remains unclear whether differences in campaign success rates are due to merely mentioning that others donate or to mentioning the specific level of the donation. To map these issues, this study clearly sets SDA and social comparison apart. Third, the type of segment that is targeted has not been consistently considered in the research design of previous studies. As a complicating factor, the effectiveness of communication types may be different across segments (e.g., De Wulf, Odekerken-Schröder, and Iacobucci 2001). Most studies on recommended donations have focused on a single segment, either on a cold list (i.e., people who never donated to the charity before) or a warm list of current donors. Yet, Wolk and Spann (2008), borrowing from pricing literature, have found that the effect of reference prices is likely to differ among customer segments, and they suggest that further research has to consider these differences. Consequently, we aim to incorporate three segments into a single study by making a distinction between: prospects who never donated before (i.e., acquisition campaigns), active donors (i.e., retention campaigns), and donors who lapsed (i.e., reactivation campaigns). Additionally, this study is first to test the type of a personalized reference amount (i.e., average, recent, or maximum) and social comparison (i.e., absent or present) across these three different segments. In sum, the main purpose of this article is to examine the role of personalized SDAs, extracted from the charity's database, combined with social comparison across three relevant segments.

In a direct mail setting, this study presents theoretical background and data from a large-scale field experiment in Europe,¹ showing the need to adopt different donation requests along the donor lifecycle. We aim to extend the current literature on this issue and to provide advice for the practicing fundraising manager. Our findings have implications not only for professional managers, but also others. In general, direct marketers who want to optimize the price suggested may borrow from these results, for example for interactive pricing mechanisms. The remainder of this article proceeds as follows. The next section provides the theoretical background regarding reference prices and the use of social comparison in charitable appeals, leading to specific hypotheses. We then present results from a controlled field experiment testing these hypotheses. Next, the conclusions of our study are framed in the extant literature. Finally, we outline suggestions for future research and implications for fundraising managers.

Conceptual Background and Formulation of Hypotheses

Segments

In this study, we consider three relevant segments because charities often distinguish between three types of direct mail fundraising campaigns based on three stages in the donor lifecycle. The first type is called the acquisition campaign and is meant to attract new contributors by sending the solicitation to people who have not contributed to the charity before. These addresses are rented or are obtained by exchange with other charities. The focus of acquisition campaigns is to maximize the response rate rather than to obtain a high average contribution. Retention campaigns are a second category in which the charity tries to preserve the current contributors and to upgrade their donation behavior. In third place, charities may try to reactivate donors who drop out and who have not given for extended periods of time. As in acquisition, the response rate is also of primordial importance in reactivation. Consequently, we want to incorporate three segments into one study by making a distinction between prospects who never donated before (i.e., acquisition campaigns), current contributors (i.e., retention campaigns), and donors who lapsed (i.e., reactivation campaigns).

Suggested Donation Amount: SDA

In this section, we first provide an overview of the literature on a fixed donation amount that is the same for all potential donors. We then argue that differentiating the amount could be more effective when personalizing the amount to a person's donation history as well as to the segment of donors targeted.

Fixed Donation Requests

In direct marketing fundraising, it is generally accepted (Brockner et al. 1984) that asking for a specific amount is better than not mentioning an amount. In practice, SDAs are regularly observed in fundraising campaigns for charitable and other public organizations. Over the last couple of decades, an increasing number of researchers have examined the effectiveness of this common practice. No uniform picture emerges, however, from the marketing and psychology literature examining recommended donations in a fundraising perspective.

A first stream of research investigated the use of an SDA by comparing the presence of an SDA with a control condition in which individuals were simply asked for a donation without mentioning a specific amount. Weyant and Smith (1987), for example, found no difference in revenues between the presence of SDAs of \$5–25 or \$50–250, and the absence of a donation request in a direct mail acquisition campaign. In contrast, Fraser, Hite, and Sauer (1988) showed that, compared to not mentioning a specific donation amount, recommending a \$20 donation for the Capitol Area Humane Society increased the gift size in a door-to-door fundraising campaign targeted at the segment of prospects. Additionally, also in acquisition, Brockner et al. (1984) demonstrated that the probability of a donation increased when an SDA of \$1 or \$5 was mentioned in telephone fundraising, as well as in face-to-face fundraising. Based on a public goods game,

¹ We analyzed monetary donation behavior in Euros. During our experiment, €1 corresponded to \$1.34.

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