Two Simple but Important Metrics Your Nonprofit Needs to Measure

You can use data you already have to check your fundraising effectiveness.

By Zach Shefska

Nonprofits have a lot of data – which, in today's big-data landscape, is a good thing. But nonprofits (just like companies in the private sector) aren't always sure what to do with all that information.

Collecting data is tricky, and maintaining it can prove even more difficult. That's why it's important to take a step back and think objectively about why you've collected all this information to begin with.

Within just one department at your organization, there are many different objectives for your data. Let's take the development department as an example. The major gift team will want to dive deeper into capacity analysis. The annual fund folks will be concerned with donor upgrades. Meanwhile, planned giving is focused on bequest potential.

Fortunately, there are a few metrics that bring these different groups together. Each relates to one common theme: fundraising effectiveness. An easy way to bring everyone together and to cut through the noise of all the data is to start measuring these two KPIs (key performance indicators). Let's begin with retention.

1. Retention

Before you dive head first into retention, let's make sure we're on the same page for the definition of the term. Retention is the number of ($) donations or (#) donors from last year who gave again this year to your organization. Retention refers to a certain point in the donor lifecycle. It can come at different points for different organizations: often monthly, quarterly, or annually. A common place to start is by looking at things annually (year over year).

There are two types of retention you'll want to measure: your *donor* retention rate and your *donation* retention rate. Let's look at how they differ:

DONOR RETENTION RATE

Donor retention rate is the number of donors you keep compared to the number you had at the start of your period of measure. This doesn't count new donors. To calculate donor retention rate, you'll take all retained donors in a year and divide that by all donors from that year.

Retained donors ÷ all donors = donor retention rate

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DONATION RETENTION RATE

Donation retention rate is revenue renewal values – the dollars that renew – and is generally measured on an annual basis. The important point here is that donation retention rate focuses only on the money, the actual revenue you retain, rather than donors. If your existing donors start giving more, through upgrades, your donation retention rate might grow even if you've lost donors.

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Donor rates and donation retention rates become more powerful when analyzing different segments of your donors. Your major gift team can calculate the retention rates amongst major donors, while the annual fund group can calculate retention across their segment of donors. Retention is the metric that can bring your team together. Every department should measure how well they're bringing back existing donors.

2. Donor Lifetime Value

Lifetime value (LTV) has its roots in the for-profit sector and for good reason. Companies use this metric to calculate customer acquisition cost, but nonprofits can apply the same logic to fundraising.

LTV is a prediction of how much money you can expect to receive from a donor before they "churn" (leave). This metric can help you and your team make important decisions about how much to spend to acquire and retain donors.

Calculating LTV is simple, but it relies on a few other metrics that can be tricky to calculate. You'll need donor lifespan, average donation amount, and frequency of donation. The formula looks like this:

Lifespan × Average donation amount × (Total # of donations ÷ Total # of donors) = LTV

Pulling this information from your database might be difficult, but it's worth the hassle. Once you know your LTV, you can be savvier about your marketing expenses. If you know your LTV, you can set your donor acquisition cost.

It's Time to Start Measuring

These two metrics – lifetime value and retention rates – are only scratching the surface. But, if your team wants to start being more data-driven, these two metrics are a great place to start.

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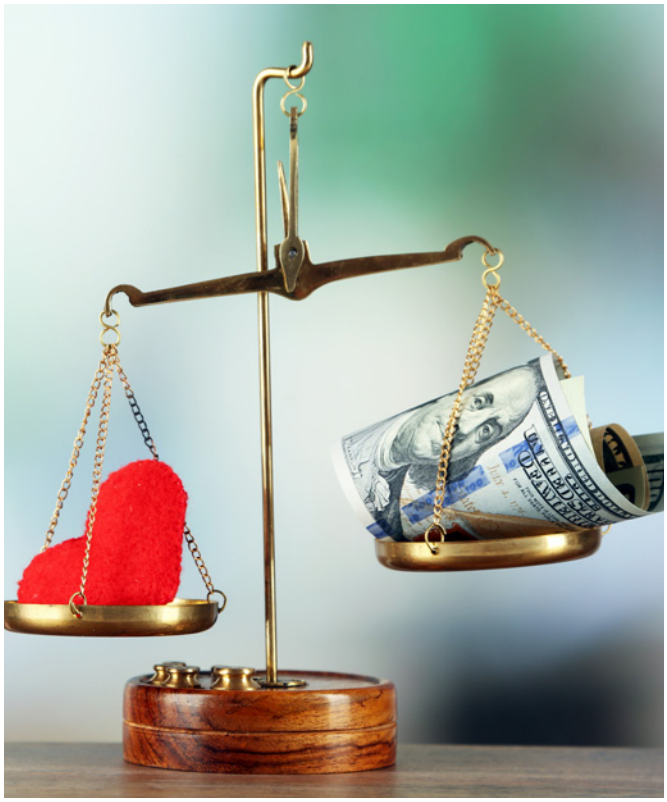

Mine Your Data Well

For more ways to use your data, see articles such as these at NonprofitWorld.org:

Being a Force for Good with Advanced Analytics (Vol. 36, No. 2)

Put Your Data to Good Use (Vol. 37, No. 1)

What's All the Fuss about ROI? (Vol. 32, No. 2)

Numbers Needed: Five Reasons to Use Financial Data in Fundraising (Vol. 30, No. 3)

Using a Balanced Scorecard (Volume 27, No. 3)

Get Smart: Measure Your Impact (Vol. 32, No. 2)

Using Your Outcome Measurement System (Vol. 18, No. 1)

Analyze Your Finances to Ensure Your Mission (Vol. 19, No. 5)

Key Performance Indicators: Nonprofits Need Them, Too (Vol. 31, No. 2)