

Why Indirect Metrics Matter for Nonprofits

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– Suchi Otta, vice president of analytics | Pursuant

Most nonprofits focus on direct metrics to guide them during their budgeting process. Often, they look at figures like the number of emails and mailers sent, how many gifts were received, and gain/loss metrics like net revenue and cost per dollar raised.

Such data indicates *how* your program is performing, not *why* you’re getting those results. “Donors aren’t response rates and average gifts,” says Suchi Otta, vice president of analytics at Pursuant. “They have reasons for engaging with your organization. Indirect metrics help you understand more of that particular picture.”

Take, for instance, an acquisition program for a large nonprofit we’ve worked with in the past. Honing in on its direct mail channel only, direct metrics such as ROI and response rates suggested the channel wasn’t successful because the donor-acquisition cost averaged between \$40 and \$45, which is steep.

But, when indirect metrics were factored in, the payback period for those donors turned out to be 18 months to two years from the time of acquisition. In addition, their average value over three years roughly equaled \$85 per donor or twice the cost of acquisition. Furthermore, the retention rate for those donors was three times greater than, for example, donors who contributed to an event. A decent percent of the donors acquired through direct mail became

planned-giving donors to the organization; they equaled close to \$20,000 in lifetime value.

So, while the acquisition cost was high, the indirect metrics showed the program's value. Without them, direct mail appeared too expensive a channel for the resulting short-term yield.

In other words, studying direct metrics on their own won't provide the full picture. Add in indirect metrics and you have a much richer understanding of your efforts. By optimizing your data, you can better plan budgets, strategies, and tactics to support your organization's mission and vision. In this paper, we'll review the direct and indirect metrics to evaluate as you move down the measurement funnel, including ways to measure the impact and value of tactics unrelated to fundraising. We'll conclude with a recommendation that ties both sets of metrics together for a plan that sets you up for success.

Let's dive in.

Defining Terms

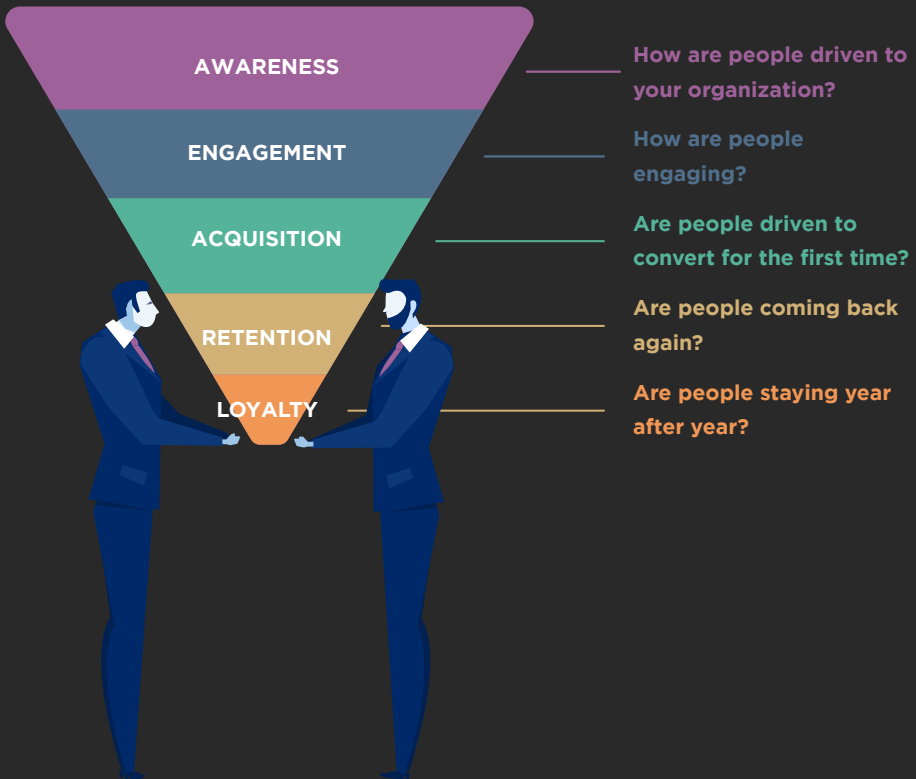
Direct and indirect metrics may be unfamiliar concepts if you're new to analytics. Let's take the time to clarify them before reviewing why they're so important.

- **Direct metrics** precisely measure the category you're looking to track, such as email open rates.
- **Indirect metrics** rely on more than one measurement to derive another metric. For example, when analyzing your brand's reputation, you might look at a sentiment analysis of your social media as well as the number of followers or likes.



Top of Funnel: Awareness

THE MEASUREMENT FUNNEL



At the top of the measurement funnel is awareness. How does your audience learn about your organization? You can't grow revenue, achieve your mission, or much of anything at all without the support of an enthusiastic fan base.

So how do you find out how your supporters learned about you? Surveys are typically used for measuring brand awareness, and the measurement takes the form of two queries that fall in the category of direct metrics:

- » **Unaided awareness.** This is usually a free-form field where respondents can enter their answers to a question like, “Which charitable organizations are you familiar with?”
- » **Aided awareness.** Here, you prompt respondents to select their answers from a list of organizations with yours included as one of the values.



TIP

Be sure to *always* put your unaided awareness question *before* your aided awareness query.

Not all organizations have the resources or capacity to maintain an ongoing brand-measurement survey, however. In such cases, third-party tools like Google Analytics, Hootsuite, or native social media platforms can provide indirect metrics like website traffic, changes in the number of social media followers, and number of impressions to fill out the picture. If your organization has a call center, trends in in-bound call volumes can provide another data point. Plotting these metrics as a line chart and then overlaying key touchpoints across different channels onto it allows you to see what contributes to the growth of these metrics throughout the year. That helps in learning how effective certain tactics are in boosting awareness, which can then aid your planning for the future.

Engagement: Inviting Interactions that Fuel Growth

The more your audience engages with your organization, the more likely they are to support your initiatives, be they fundraising drives, event attendance, or simply telling friends and family about your nonprofit.

Email open rates, clickthrough rates, and unsubscribes are direct metrics that indicate engagement. If your numbers are lower than you'd like (compared to your sector benchmark or historical average), a few tactics that may improve them include A/B testing your subject lines and sender names,¹ as well as the placement of the CTA in the body of the email. You can also track the content of your highest performing social posts and then publish more posts along those lines.

Indirect metrics for this stage of the funnel include bounce rates, average number of pages visited per website session, and shares of your social media posts. Again, you can derive this data from third-party tools like Google Analytics or TweetDeck.

But how do you interpret those indirect metrics? You might notice that your bounce rate is falling, and the average pages visited per session is on the rise, likely an indicator of better engagement. Note which pages are attracting that traffic and optimize your site design or content strategy around those.

Or perhaps you're dismayed by sluggish engagement with your social posts. Consider the marketplace or current events. What's going on that may be affecting that? Can you hook into the topic

du jour in some way?

Keep in mind, though, that there aren't many social media benchmarks for the nonprofit sector. You'll want to keep track of your own numbers so that you have figures to compare against over time.

Acquisition: Congratulations! You've Netted a New Fan

The direct metrics for this stage of the measurement funnel are fairly straightforward. They include the number of new donors and new names for your donor file, as well as average cost to acquire, which tells you the average investment needed to acquire a new donor or name. Costs can include ad spend, postage, the price of lists purchased, and printing costs. Of course, staff time is another factor, but it can be difficult to get good numbers on this, so don't sweat it if you aren't able to add it.

To calculate your average cost to acquire, divide the total cost by the total number of new donors or names. Monitor these metrics by channel to see which are driving results and which has the lowest cost of acquisition. Doing so will help you plan for the desired acquisition budget across different channels.

The indirect metrics around acquisition that can tell you whether your tactics are working are more complicated. The easier ones include the average time it takes for a new name or volunteer to donate, average time between the first and second gift, and retention channel for new names, donors, or participants, e.g., volunteers.

Another indirect metric that's more intricate is payback period, which is how long it takes for a new donor or name to become a net positive to your organization. It's a crucial metric for your planning process because it can suss out how much you should budget for acquisition and how much time to set aside. Here's how you arrive at it:

- » Add your acquisition cost to your retention cost.
- » Calculate the donations each group has made over the same timeframe.
- » Identify at which point the cumulative cost is the same as your cumulative revenue.
- » Do this at the individual level and average your totals to arrive at the average payback period.
- » The above metrics should be for monthly levels to yield a precise answer.

Ideally, you should have three to four years worth of data for this to work properly. The typical payback period for acquisitions via direct mail is between 18 and 36 months, but it depends on the type of organization, the acquisition budget, awareness metrics, and the program's maturity.

Next, you'll want to determine the lifetime value of acquired donors. There are many ways to get at this number, but a simple one is to calculate the average lifetime revenue per donor:

total revenue from all donors ÷ total number of donors

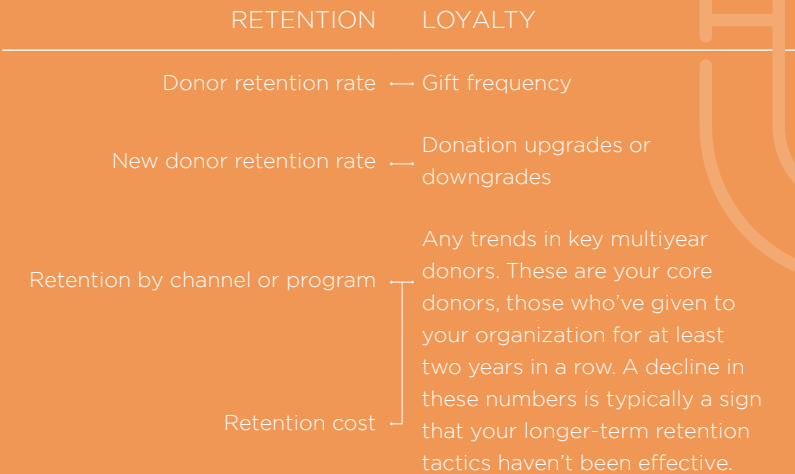
You can use that figure as a proxy or take a more advanced approach using the following equation:

**average lifespan of your donor file x average
gift size x average number of gifts**

Retention & Loyalty: Maintaining a Healthy Donor File

The last two stages of the measurement funnel are close cousins separated by time. Retention refers to donors and names you keep in your file in the 12 months following involvement, while loyalty refers to those who remain beyond that period. Each has a handful of direct metrics to track.

Direct Metrics



Stewardship doesn't involve direct-ask strategies, so using direct revenue metrics can be misleading even if you see some donations come in directly. To properly measure your stewardship tactics, try this advanced technique instead:

- » Identify two groups: a control group and a test group. They should be similar but can be from different timeframes; for example, one can be mid-level donors from 2018 and another from 2019. They shouldn't be more weighted in one direction than another; for example, one shouldn't include more multiyear donors than the other group and so on.
- » Run experiments. Perhaps one group receives a series of messages while the other receives none.
- » Observe both groups for at least six months to a year and note divergences.

The above exercise should allow you to compare a handful of indirect metrics from each group: retention rates, average gift size, time between involvements, and migration patterns. The results should reveal how successful your stewardship strategies are in:

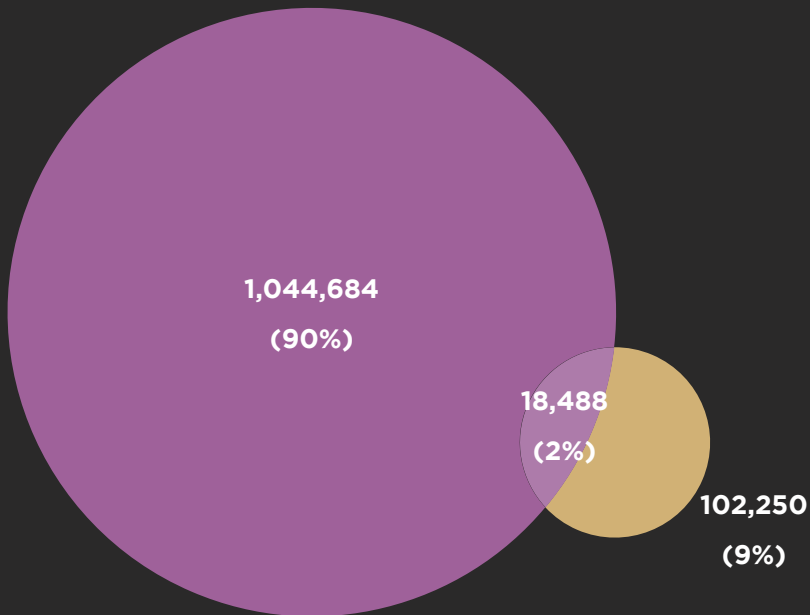
- » Yielding higher retention rates
- » Producing a higher average gift size
- » Reducing the time between subsequent involvements
- » Nudging involvement in different directions, such as volunteering for your organization

Advanced Techniques: Measuring the Value of Your Programs, Tactics, & Channels

You may want to assess the value of your programs, tactics, and channels² outside the measurement funnel, and there are at least two advanced techniques you may find useful.

The first is a cross-involvement analysis, which can help you understand the impact of involving your audience in multiple programs. In a basic example that looks at just two types of involvement, we can learn a few lessons, such as how many people each program attracts, demographic differences, and how the giving behavior for those involved in both programs differs from the giving behavior of those involved in just one or the other. In the example below, for instance, there's only a 2 percent overlap between both programs, but where that overlap occurs, the revenue per donor is twice as high.

This technique can help you identify the types of people who are more likely to engage in both programs. You can then plan outreach efforts that draw such an audience in and thus boost the overall lifetime value of your donor base. Naturally, you can expand your analysis to cover all types of segments or involvements. You don't have to limit yourself to just two groups.



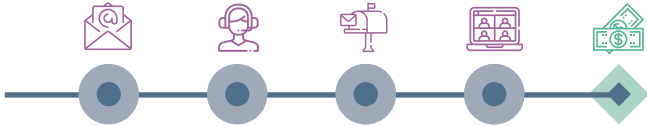
	Program 1 ONLY	BOTH	Program 2 ONLY
# Donors	42\$	80%	52%
Rev per Donor	\$260	\$552	\$260

Another advanced technique you might consider involves attribution models. Unlike revenue and other direct metrics, which are based on last-touch metrics whereby credit is attributed to the tactic or channel that resulted in the final conversion, attribution models measure the impact of a specific tactic that may have happened earlier than conversion.

There are multiple attribution models, but we focus on the three used most frequently: linear, time-decay, and position-based. They uncover the value of different touchpoints in the conversion journey — email, direct mail, telemarketing, or online advertising, to name a few — by assigning varying credits to each.

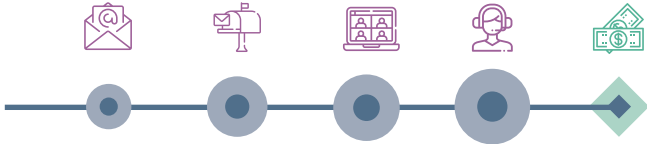
In a linear model, which is most helpful for measuring your marketing strategy holistically, each touchpoint receives equal credit.

LINEAR MODEL



In a time-decay model, the touchpoint closest to the conversion receives the greatest credit and the one farthest from the conversion receives the least. This model is effective at determining which channels regularly drive conversions and which are primarily top-of-funnel.

TIME-DECAY MODEL



In a position-based model, the majority of the credit — 40 percent, let's say — is assigned to the first and last touchpoints prior to conversion; the remaining touchpoints receive equal credit. It's a model that can help you identify which channels or tactics are best for acquiring donors or audiences and which are best for converting them.

POSITION-BASED MODEL



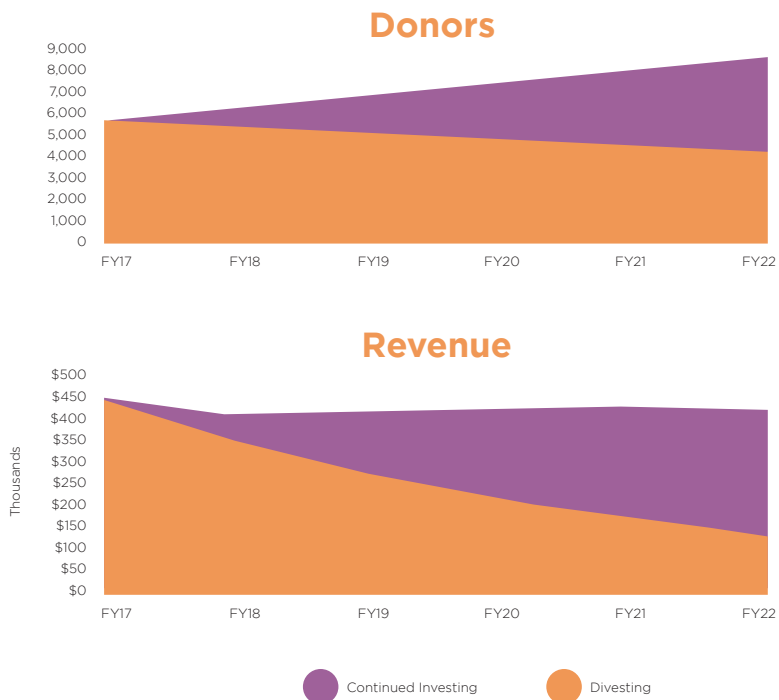
Bringing It All Together

Now that we've gone over the direct and indirect metrics that comprise your measurement funnel, as well as reviewed advanced techniques for measuring strategies, tactics, and channels, how might we bring all that to bear when crafting a budget and plan for the coming year?

For fiscal year 2021 (FY21), begin with your pre-pandemic base forecast for fiscal year 2020 (FY20) and apply the gain in donor count and revenue since the pandemic began. Add the retention tactics and new donors acquired during the pandemic.

Next, evaluate the impact of your non-fundraising tactics by leveraging the direct and indirect metrics discussed earlier. Tweak your investment options — you may end up allocating more to digital ads, for example, and less to email campaigns — to optimize your communications mix (that is, one that includes fundraising, acquisition, and retention strategies). That combination should balance fundraising with other tactics, and it should balance your short-term revenue goals with the long-term health of your donor file.

Below is an example from a client who we helped show the long-term impact of certain investment strategies, like acquisition and stewardship, versus a situation where there is no investment strategy. The client's goal was to acquire a specific donor count within three years. We illustrated where we started, where we were at the time, and, finally, where we'd be in three years' time, and we used a budget chart for each scenario. Using visuals such as this for different scenarios of the communication mix helped them choose the best one for improving the health of their donor file while still continuing to stabilize revenue.



Conclusion

As you plan for the future, remember that forecasting isn't just about strict revenue metrics. Focusing only on short-term ROI could lead to a degradation of your donor file health in the long run. Engagement and retention strategies are valuable tactics for stabilizing the health of your file and driving greater revenue in the long run. The investment in some of the tactics we covered in this paper will result in a loyal base for your mission in the long term. Armed with these analytical tools, you'll hopefully begin to see the immediate benefits of tracking both direct and indirect metrics for your nonprofit.



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