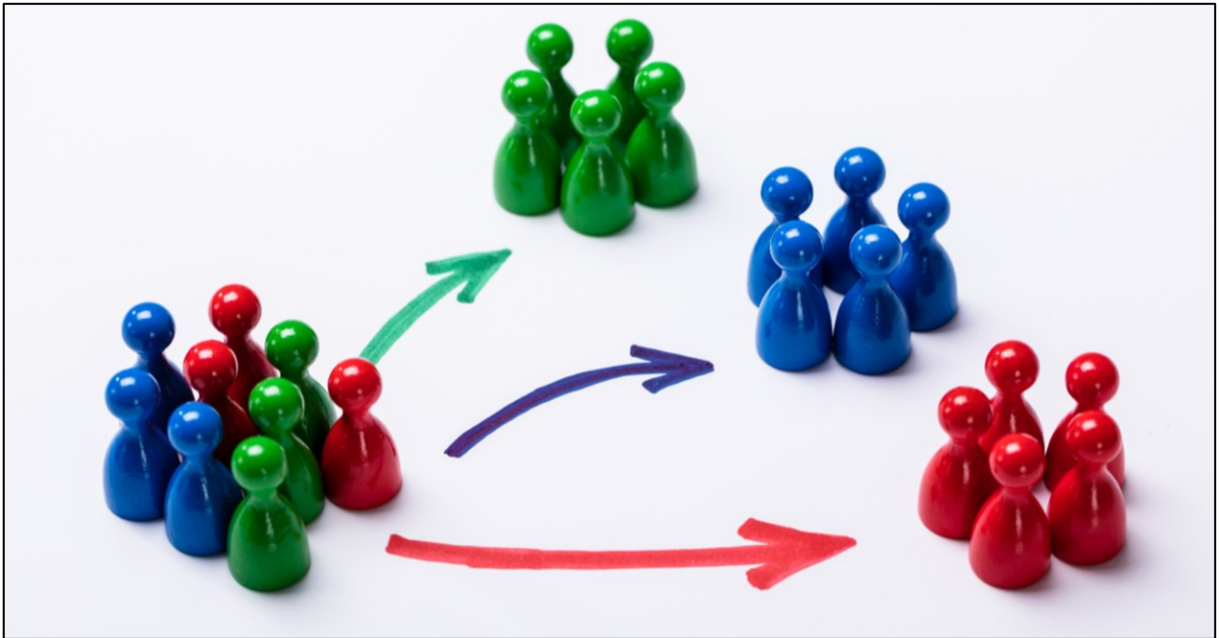

Segmentation: The Fundraiser's Imperative

-- Larry F. Johnston, PhD

If I had all the money wasted by nonprofit organizations because of the costs of poor segmentation, I'd be *very* wealthy. I would have started a foundation long ago and would be spending my time *giving* money to worthwhile causes rather than helping to raise money for them.

Because my intent here is to dash off a brief article rather than a book, I'm going to focus on only two issues related to segmentation. But they are issues every nonprofit organization needs to understand. One relates to value creation. The other to the economics of database management.

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While as a nonprofit you may not think in terms of “value creation,” from one perspective, it’s why you’re in business. That language likely sounds very commercial to some readers, and if your inclination is to think first in terms of your organization's mission and vision, you're likely in the majority of nonprofit staff. Yet within the context of your mission and vision, to stay in business you've got to give key stakeholders what they want, and "value" nicely captures that concept. Keep in mind that there are multiple definitions of value in the customer satisfaction and management literature, but the simplest and most important definition for many organizations is "whatever your stakeholders say it is."

I won’t unpack the components or details of value propositions here, but just understand that **what constitutes value varies by audience or stakeholder group**, and our research confirms this can even vary by donor segment within the same donor base.

To keep things simple, let’s just consider two key types of stakeholders almost universally applicable to nonprofits: ***beneficiaries*** and ***benefactors***. That is, *those you serve* (e.g., AIDS orphans in Africa, residents of refugee camps, victims of natural disasters, the homeless in our inner cities) and *the donors whose support enables you to serve them*.

Viewed through the lens of value creation, you have two "simple" (i.e., not complex; not to be confused with "easy") imperatives:

1) **Create demonstrable value for your beneficiaries or you’ll be perceived as ineffective.**

2) **Create (and communicate!) demonstrable value for your donors or you’re likely to see high attrition rates.**

Why? Because unless you’re demonstrably creating value (“impact” might be an appropriate synonym) for beneficiaries -- food, safe water, housing, medicines, jobs, sharing the Good News, etc. -- you might be confusing activity with accomplishment, motion with progress.

And if you’re not creating value for benefactors (e.g., your donors) by way of demonstrable missional impact and results, in today's highly competitive environment someone else will be more than happy to. In that case, color your donors “gone.” (NOTE:

the costs of acquiring new donors compared to the cost of keeping current donors should send shivers up the spines of your development staff as well as your CFO. And if you're losing donors, it may not be because you're failing to *create* value, but because you're failing to adequately *communicate* the value you're creating or the impact you're having.)

Enter **segmentation**, the process of taking a heterogeneous or diverse audience and breaking it down into homogeneous segments. For example, segmenting or stratifying your donors ***vertically*** (by way of economic value) and ***horizontally*** (by way of different interests).

Obviously, if all your donors were interested in exactly the same thing and all gave the same amount, the task of segmentation would be child's play. But because different donors value different aspects of your work and often represent dramatically different economic potential to your organization, you'd better scratch them where they itch or they'll find someone who will. Put differently, one size doesn't fit all so you'd better find the sizes that fit different donors!

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Because my focus here is limited to development or fundraising, I won't address *program* segmentation. That is, if you're a rescue mission or organization serving the homeless in our inner cities, I assume your programs and services differ between those you feed, those you shelter, those involved in rehab, etc.

For development or fundraising purposes, however, there are the "Big Five" criteria:

- ***Recency***: when the donor last gave.
- ***Frequency***: how often the donor has given.
- ***Amount***: the dollar value of their giving.
- ***Source***: how you acquired them and how they give (e.g., online, direct mail, events)
- ***Designation***: what it is they're giving to (specific causes, programs, projects, etc.)

Remember, we're only talking about *donors* here, and focusing on the "big five" doesn't discount more sophisticated segmentation models including criteria like demographics (gender, age, education, etc.) and geography (where donors live and/or work). I'm also assuming that your mailing list and donor base include non-donors (prospects, suspects, friends, volunteers), and those are other segments still.

A quick quiz

But as it relates to value creation, here's a quick quiz: Which of the five criteria above provide you with the first hint of what may constitute value for a donor? *Designation*.

Understand that initially you can only *tentatively infer* from the gift designation what the donor's interest is, and they may well be interested in other aspects of your work or become more broadly interested with the passage of time and the right cultivation. But back to our rescue mission example, just because the donor gave to provide a Thanksgiving meal, don't assume they're interested in your rehabilitation program. These are different segments of your constituency and donor base with often very different value propositions. And it can rightly be argued that in development, if you don't know what your donors really value, you don't know your job.

What's the lesson here? Start by scratching them where they itch until you know they itch in more than one place!

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Sloppy segmentation isn't just sloppy management.

It's poor stewardship.

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Now briefly to a vital consideration to all savvy development people: **Economics**. More specifically, how you manage the microeconomics of your database.

While as a fundraising consultant I'm clearly more in the fund *raising* business than the fund *saving* business, I'll note in passing that I've helped large organizations save hundreds of thousands of dollars annually just by being smarter in which segments they mail to and how frequently. (NOTE: email and social media have very favorably

impacted the economics of donor communications, but when it comes to design, production, and postage costs for printed appeals and newsletters -- something large numbers of donors still prefer and may even require -- many organizations are still wasting obscene amounts of money). You see, sloppy segmentation isn't just sloppy management. It's poor stewardship.

I'll assume that if you're reading this as a development professional, you're monitoring the productivity and profitability of different communications to your donors. Not just for distinct individual communications (e.g., your January appeal, your February newsletter, your annual report, etc.), but longitudinally (that is, over time) ***by segment***. How a specific segment performs in response to one mailing may not accurately depict how that segment performs over time. That is, a given segment could be profitable for one mailing -- or a specific type of mailing -- but be hemorrhaging financially if analyzed over the course of a year.

What's the bottom line here?

If you're not monitoring the profitability of your communications by segment, you could be losing a lot more money than you realize.

For some organizations, it's hundreds of thousands of dollars *annually*.

If your organization is small, you may need only a handful of segments to enhance more strategic communications, differentiation and customization in your value propositions and communications, donor retention, and cost-effective file management. For *very* large organizations, you could be talking dozens of segments if not hundreds.

Regardless of the numbers or the sizes of your donor segments, understand that "one size doesn't fit all." It rarely has and it likely never will. That's why segmentation is, well… the fundraiser's *imperative*.

If you find the issues of segmentation occasionally confusing, you're not alone. Feel free to reach me at larry_johnston@mcconkey-johnston.com or call or text 303.638.1827 for a complimentary consultation. We've been helping nonprofits of all sizes for 40+ years to grow and excel and would welcome the opportunity to explore how we might help you and your organization.

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