



## Focusing on the Right Measures:

### Extrapolating Dollar Loss from Donor Defections



**Jeff McLinden**  
**Vice President**  
**McConkey • Johnston International**

#### Understanding the value of donors

What is a donor worth? The tendency is to look at average annual giving to determine the “value” of a donor. But LIFE-TIME VALUE (LTV) is a far better indicator. And LTV can be radically different depending upon a variety of factors that determine the quality of their relationship...

You must recognize that donors are not all equal in their value to your organization. For example, while “average annual giving” is a usual measure of donor value, the figure is just that – an average! Different segments of the file have different levels of “worth” as suggested by the following table, which only looks at tenure on the donor base:

Average Annual Giving	—	\$206
Newly acquired donor	—	\$115
Continuing donor	—	\$215
Multi-year donor	—	\$289

### Slow, agonizing death by attrition...

Failure to recognize donor value often results in a failure to keep donors involved...resulting in a steady erosion of the donor base. Attrition is insidious — and costly, as illustrated by the use of calculations that demonstrate its impact...

The impact of donor defections is often masked by incremental gains in income, usually due to increases in average giving by continuing donors. Assuming that few if any new donors are added, the effect can look something like this...

$$(\text{Avg Annual Giving}) \times (\text{Number of Donors}) = \text{INCOME}$$

$$\text{Year 1-}\$135 \quad \times \quad 5,000 = \$675,000$$

$$\text{Year 2-}\$150 \quad \times \quad 4,500 = \$675,000$$

$$\text{Year 3-}\$175 \quad \times \quad 3,750 = \$656,250$$

$$\text{Year 4-}\$200 \quad \times \quad 2,750 = \$550,000$$

$$\text{Year 5-}\$220 \quad \times \quad 2,250 = \$495,000$$

### How donor acquisition strategies fail...

- Most acquisition strategy is designed to “offset attrition.”
- Costs to acquire new donors often far exceed their 1st-year value.
- Failure to retain newly acquired donors results in excessive net losses.
- Many organizations, as a result, experience “churn” with new donors replacing existing donors via a revolving door!
  - o If the 1st-year value of a “new donor” is \$115...
  - o And the value of a multi-year donor is \$289...

You must acquire 3 new donors to “offset” the loss of 1!

## Extrapolated Dollar Loss Equations:

### 1. Simple Dollar Loss –

This equation looks at the financial impact of donors lost in three successive years, based solely on the average annual giving.

$$\begin{aligned}
 \text{Dollars Lost} &= ag1(d1) + ag2(d2) + ag3(d3) \\
 &= 150(500) + 175(750) + 200(1000) \\
 &= 75,000 + 131,250 + 200,000 \\
 &= \$406,250
 \end{aligned}$$

### 2. Cumulative Dollar Loss –

This equation takes into account the cumulative effect of losses on succeeding years, since those donors, if retained, would have contributed to the total income of the organization

$$\text{Dollars Lost} = ag1(d1) + ag2(d1 + d2) + ag3(d1 + d2 + d3)$$

<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
150(500)	175(500 + 750)	200(500 + 750 + 1000)
= \$75,000	= \$218,750	= \$450,000

$$\begin{aligned}
 \text{Dollars Lost} &= 75,000 + 218,750 + 450,000 \\
 &= \$743,750
 \end{aligned}$$

### 3. Incremental Dollar Loss (assumes static increase of 5%) –

This equation considers the effect of donor-initiated increases in giving (called “static” upgrade) on an annual basis.

$$\begin{aligned}
 \text{Dollars Lost} &= ag1(d1)(1+x) \\
 &\quad + ag2\{d1(1+x) + d2\}(1+x) \\
 &\quad + ag3\{[d1(1+x) + d2](1+x) + d3\}(1+x) \\
 &= 150(500)(1.05) \\
 &\quad + 175\{(500)(1.05) + 750\}(1.05) \\
 &\quad + 200\{[500(1.05) + 750](1.05) + 1000\}(1.05) \\
 &= 78,750 \quad + \quad 234,281 \quad + \quad 491,138 \\
 &= \$804,169
 \end{aligned}$$

### 4. Upgraded Dollar Loss (assumes dynamic increase of 15%) –

Often, organizations are able to achieve more significant upgrades in donor giving due to effective use of specific upgrade challenges and strategies. This organization-initiated upgrade is called “dynamic” upgrade.

$$\begin{aligned}
 \text{Dollars Lost} &= ag1(d1)(1+x)(1+y) \\
 &\quad + ag2\{d1(1+x)(1+y) + d2\}(1+x)(1+y) \\
 &\quad + ag3\{[d1(1+x)(1+y) + d2](1+x)(1+y) + d3\}(1+x)(1+y) \\
 &= 150(500)(1.05)(1.15) \\
 &\quad + 175\{(500)(1.05)(1.15) + 750\}(1.05)(1.15) \\
 &\quad + 200\{[500(1.05)(1.15) + 750](1.05)(1.15) + 1000\}(1.05)(1.15) \\
 &= 90,562 \quad + \quad 286,064 \quad + \quad 636,269 \\
 &= \$1,012,895
 \end{aligned}$$

Use of these formulas can provide you with a much more accurate picture of the potentially devastating impact of donor defections. The best solution to avoid such losses is, through the delivery of superior service and VALUE to them, to never allow donors to WANT to leave!

**Jeff McLinden**  
**Vice President**  
**McConkey • Johnston International**  
**719-597-3455    [jeff\\_mclinden@mcconkey-johnston.com](mailto:jeff_mclinden@mcconkey-johnston.com)**