

*Research in the for-profit world suggests that small increases in donor loyalty can have a dramatic effect on a nonprofit's future revenue streams.*

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## Managing donor defection: Why should donors stop giving?

*Adrian Sargeant*

CHASING DONOR loyalty seems to have become the holy grail of fundraising. Faced with spiraling recruitment costs and competition from a variety of increasingly sophisticated local and national players, many U.S. nonprofits are now focusing their attention on retention, and with good reason. From research in the commercial sector, we understand that it costs an average of five times as much to conduct business with a new customer as with an existing one (Raphel, 1991). A large proportion of recruitment effort and expenditure will inevitably be wasted as communications are sent to those with no interest whatsoever in the product or service being offered. Existing customers, by contrast, have already demonstrated an interest in the supplier's portfolio by virtue of their past purchases. It is also the case that the propensity to purchase for existing customers can be enhanced by using data on purchase histories to tailor product and communication offers to reflect known customer interests. It is therefore no surprise that response rates from direct

I thank the Lilly Endowment for its generous financial support of this research.

mail, for example, can vary by a factor of fifty or more between customer recruitment and customer development activity.

Indeed, similar patterns of behavior have been reported in the voluntary sector. Much donor recruitment activity takes place at a loss and is conducted solely on the basis that once recruited, it should be possible to persuade a donor to give second and subsequent donations, thus achieving a respectable return on investment over the full duration of the relationship (Sargeant and McKenzie, 1998).

Aside from the rather obvious point that recruitment activity is inherently more expensive than donor development, recent research in the commercial sector has helped focus the minds of fundraisers on how small increases in donor loyalty can have a dramatic impact on an organization's future revenue streams. Reichheld and Sasser (1990), for example, reviewed the activities of one hundred companies in two dozen industries and concluded that firms could improve profits from 25 to 85 percent by reducing customer defections by just 5 percent per year. In one case, lowering the defection rate from 20 percent to 10 percent doubled the longevity of the average customer relationship from five to ten years and more than doubled the cumulative profit stream achieved.

The impact of increasing customer retention in fundraising has yet to be quantified empirically, but authors such as Burnett (1992) have argued persuasively that dramatic increases in overall profitability may be achieved through comparatively modest increases in donor loyalty. Burnett concludes that to achieve such increases, it is necessary to move away from what he regards as a focus on transactions to a focus on relationships. Many nonprofits, he argues, have tended to view the contacts they have with their donors as a series of one-off sales or transactions, where repetitive messages are employed to encourage the donor to support the cause, campaign by campaign. To encourage loyalty, it is essential to recognize the past pattern of giving and develop the pattern of communication organically to reflect changes in donor understanding and interest and help the relationship evolve.

Indeed, a change in emphasis from transactions to relationships is long overdue. Nonprofits have been losing their donors at an

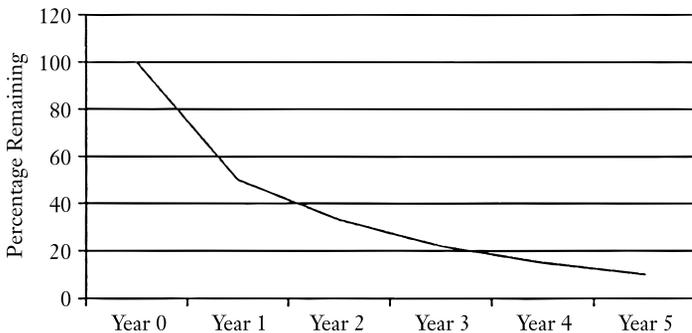
alarming rate. In the year following an initial donation, a typical nonprofit will lose between 40 and 50 percent of its new cash donors. After this initial exodus, organizations lose some 30 percent of their donors year-on-year thereafter (see Figure 4.1). It is no surprise that expenditures on donor acquisition activity have increased dramatically in recent years as organizations work ever harder to make up for this shortfall in their database. Yet at what cost? The majority of donor acquisition activity fails to break even, achieving returns of only fifty to eighty cents on the dollar. To survive, nonprofits need to be able to encourage their supporters to make second and subsequent gifts.

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***Why do donors defect?***

Despite the significance of the issue, comparatively little is understood about why donors should be motivated enough to give on one or more occasions and then terminate their support. Intuitively, one would expect that the reasons for lapse would depend on the duration of the prior relationship. Those donors giving only once may have been motivated by a particularly striking campaign, the circumstances of which may be difficult to reproduce. Those

**Figure 4.1. Donor defection curve**



donors staying loyal for longer periods of time are clearly committed in some way to the cause, and their reasons for lapse are therefore likely to be more complex.

As a starting point in exploring this issue, a review conducted of the for-profit customer retention literature found that a number of factors could lead to customer dissatisfaction and ultimately lapse:

*Attraction by competition.* In the fundraising context, it may follow that donors are drawn to other causes that they find inherently more appealing.

*Poor quality of service.* Some donors may find the quality of service provided poor. The nonprofit, for example, may fail to respond to communications, wrongly address correspondence, or fail to provide requested feedback.

*Poor relationship quality.* The nonprofit may fail to take account of the wishes of its donors or acknowledge the nature of the relationship that has developed over time. Nonprofits might therefore ask for inappropriate amounts, communicate at the wrong time of year, or fail to recognize the giving history and specific details that suggest the nature of the relationship (if any) that a donor might wish to be party to. Many nonprofits, for example, still continue to send every communication to every donor on the database. No attempt is made to segment the database by donor interests, level of gift, or something else. The majority of donors may not care, but a significant number may become disenchanted over time and elect to divert their funds elsewhere.

*Lost to market.* Some donors may simply be lost to the fundraising market. They may die, move away, or cease to be drawn to the cause in question.

Of course, these factors are taken from a very different sector, facing a very different set of environmental conditions. To date, no empirical studies have been conducted to ascertain the true reasons for lapse, specifically in the context of voluntary sector support.

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### *A new initiative*

In an effort to correct this deficiency, I began a primary study in the summer of 2000. The research was conducted in two stages. In the first stage, ten focus groups were conducted to determine the key reasons for donor attrition, which could then be tested quantitatively to establish the relative importance and prevalence of them. The results identified the quality of service provided to donors as a critical issue and also identified other potential causes of lapse, such as a shortage of funds or a desire to support other charitable organizations. All the variables with the potential to influence lapsing behavior were input to the second stage of the empirical study.

A postal survey was then developed in collaboration with ten major U.S. nonprofits representing a diverse range of causes. Each supplied a stratified random sample of its database. The sample was stratified to ensure that the sample was evenly balanced between donors who were currently active and those who had lapsed. The aim was not only to ascertain reasons for lapse but to compare active donors with lapsed donors to see whether any substantive differences in profile or attitude might emerge. For the purposes of this research, a lapsed donor was defined as one who had not given to the nonprofit concerned during the preceding eighteen-month period. A different variant of the questionnaire was sent to both lapsed and active supporters, with the lapsed questionnaire including additional questions about the reasons for the lapse and phrasing questions about the nature of the donor's relationship with the nonprofit concerned in the past tense.

The analysis of this survey is based on a usable response rate of 24.6 percent, and it should be noted that the two categories of individuals were reflected in the same proportion in the resultant data set.

### *Reasons for lapse*

As a first step, donors who were known to have lapsed their support of one of the organizations participating in the study were asked why this might have been the case. Respondents were asked

to check each reason for quitting that applied. Table 4.1 reports the results obtained.

As one might expect, the most common reason for lapse was financial inability. Many donors clearly felt unable to continue their support, preferring to spend their funds on other household priorities. But other factors as well, such as a lack of acknowledgment for their gift or a feeling that other causes are more or equally deserving, would seem to have an impact on behavior also. This factor is worthy of particular note since it suggests that many lapsed donors may be lost to the specific organization but not to the sector as a whole. Some individuals clearly feel the need to spread their gifts around the sector according to what they see as their personal priorities for giving.

The relatively low percentage of the sample indicating each remaining reason for lapse is also significant since it suggests that the reasons for termination of support are quite diverse in nature. Clearly, a variety of factors have a role to play, with the quality of service provided by the fundraising department a recurrent theme in the latter half of the table. Of particular interest are the 9 percent of individuals who appear not to be able to remember having supported the organization in the first place. It thus seems fair to conclude that some organizations failed to communicate effectively

**Table 4.1. Reasons for lapse**

<i>Reason</i>	<i>Percentage</i>
I can no longer afford to offer my support.	54.0
I feel that other causes are more deserving.	36.2
Death/relocation.	16.0
X did not acknowledge my support.	13.2
I do not recall supporting X.	9.2
X did not inform me how my money had been used.	8.1
X no longer needs my support.	5.6
The quality of support provided by X was poor.	5.1
X asked for inappropriate sums.	4.3
I found X's communications inappropriate.	3.8
X did not take account of my wishes.	2.6
Staff at X were unhelpful.	2.1

*Note:* The name of the participating nonprofit was inserted throughout at X.

with many of the donors they originally recruited. Indeed, fundraising communications appear to affect donor attrition in other ways. Donors can be neglected and not asked for a second gift, while others can feel either that the amount of a second ask is inappropriate or that they did not receive sufficient information about how their first gift had been used.

The reasons for lapse varied by the length of the prior relationship. Donors lapsing after only one donation were significantly more likely to cite financial inability as their primary reason for lapse. Donors staying with the organization for longer periods were significantly more likely to cite issues of service quality, particularly communication, as their primary reason for lapse. Indeed, when the researchers sought to predict the duration of a nonprofit-donor relationship, a given donor's perception of the quality of the fundraising communications received was found to be the more important predictor. The more favorable the perception of communications held, the more enduring would prove the relationship.

### *Service quality issues*

To investigate the impact of delivered service quality in greater detail, respondents were also asked to assess the perceived quality of their relationship with the organization in question and in particular to assess the quality of service provided. An adapted version of the measurement instrument SERVQUAL (Parasuraman, Zeithaml, and Berry, 1988) was employed for this purpose. Active and lapsed supporters were asked a similar set of questions, but the phrasing for lapsed supporters was altered to present the statements in the past tense. The results for each group and the overall mean scores are reported in Table 4.2. Respondents were asked to indicate the degree to which they agreed or disagreed with each of the statements listed on the following five-point scale:

- 1 Strongly disagree
- 2 Disagree
- 3 No opinion/neutral
- 4 Agree
- 5 Strongly agree

**Table 4.2. Perceptions of ongoing relationship**

<i>Statement</i>	<i>Mean Active Score</i>	<i>Mean Lapsed Score</i>	<i>Overall Mean</i>
I felt confident that X was using my money appropriately.	4.15	3.90	4.07**
X kept me informed about how my money is being used.	3.51	3.19	3.39
The behavior of the X's employees instilled me with confidence.	3.60	3.27	3.48*
X always responded promptly to requests I had for information.	3.37	3.18	3.31**
X made me feel that it was always willing to help me if I had a query.	3.47	3.26	3.40**
Employees at X were never too busy to speak to me.	3.43	3.24	3.36**
I felt safe in my transactions with X.	3.94	3.68	3.84**
X's communications were always courteous.	3.96	3.73	3.88**
X's communications were always timely.	3.74	3.45	3.64**
Employees in X were always courteous.	3.71	3.52	3.64**
Employees in X have the knowledge to answer your questions.	3.57	3.36	3.50**
X gives you individual attention.	3.33	3.08	3.24**
X has employees that give you individual attention.	3.35	3.21	3.30**
Employees of X seemed to understand my specific needs.	3.21	3.08	3.17*
When I had a problem X showed an interest in solving it.	3.24	3.13	3.20*

\*Significant difference at the 0.05 level.

\*\*Significant difference at the 0.01 level.

The mean score ratings for each item suggest a general appraisal of satisfaction with the quality of service provided by participating organizations bordering on the mediocre. Few mean scores diverge significantly from the midpoint of the scale. Nevertheless, differences emerged between the perceptions of active and lapsed supporters. Lapsed donors have significantly poorer perceptions of the performance of the participating nonprofit on all but one of the dimensions highlighted.

To investigate this issue further, a measure of overall satisfaction with the quality of service provided was computed. The percentage of donors in each satisfaction category is indicated in Table 4.3.

**Table 4.3. Overall satisfaction**

<i>Level of Satisfaction</i>	<i>Percentage of Sample</i>
Very dissatisfied	0.0
Dissatisfied	3.2
Neutral	47.4
Satisfied	40.6
Very satisfied	8.8

The results are somewhat disappointing; although almost all donors expressed a feeling of neutrality or base satisfaction, less than 10 percent of donors appeared to be “very satisfied” with the quality of service provided. This is a particularly significant issue, since a comparison of active and lapsed supporters indicated that the proportion of each category of donor varied at differing levels of satisfaction. A further examination of the data set indicated that those who were very satisfied were 2.1 times more likely to make a further donation (thus remaining active) than those who were merely satisfied. It would therefore seem that improving overall levels of satisfaction would improve levels of donor loyalty.

It should be noted that the SERVQUAL instrument was not designed to cover the specific nature of the donor-nonprofit relationship. For this reason, a further series of questions was posed, designed to address a range of specific issues that the focus groups had determined were central to the nature of the donor-nonprofit relationship and donor perceptions of it. Nine aspects of this relationship were examined, and donors were asked to indicate the importance to them of each aspect of the fundraising relationship. Once again a five-point scale was employed. The mean scores obtained are reported in Table 4.4.

The results indicate that donors care about most aspects of the fundraising product, with only the dimension “making me feel important” failing to achieve a score of 3.0 (the midscale). It would seem that donors place the highest degree of importance on dimensions such as “not asking me for support too often,” “being polite in all communications,” and “leaving it to me how much to donate.”

**Table 4.4. Importance of aspects of fundraising relationship**

<i>Statement</i>	<i>Mean Active Score</i>	<i>Mean Lapsed Score</i>	<i>Overall Mean</i>
Asking for appropriate sums	3.22	3.27	3.23
Leaving it to me how much to donate	4.28	4.28	4.28
Thanking me for my gift	3.80	3.73	3.77
Responding quickly when I contact them	3.68	3.67	3.68
Demonstrating they care about me	3.06	3.13	3.08
Being polite in all their communications	4.03	4.04	4.04
Informing me how my money is spent	3.98	3.96	3.97
Not asking me for support too often	4.34	4.21	4.30*
Making me feel important	2.36	2.48	2.41

\*Significant difference at the 0.05 level.

Donors were then asked to rate participating organizations on performance against each dimension employing a five-point scale ranging from 1 (“below average”) to 5 (“above average”). The results of this analysis are reported in Table 4.5.

The results indicate that organizations rate highest on communications dimensions, such as “thanking me for my gift” and “being polite in all their communications.” Lapsed donors proved significantly more likely to feel that they had been asked for support too often or had not been thanked appropriately for their gifts.

As a final step the “expectation” scores were subtracted from the performance scores to generate a series of gaps. These were nega-

**Table 4.5. Performance of participating nonprofits**

<i>Statement</i>	<i>Mean Active Score</i>	<i>Mean Lapsed Score</i>	<i>Overall Mean</i>
Asking for appropriate sums	3.55	3.52	3.54
Leaving it to me how much to donate	3.82	3.68	3.77*
Thanking me for my gift	4.06	3.84	3.98**
Responding quickly when I contact them	3.57	3.44	3.53*
Demonstrating they care about me	3.41	3.27	3.36*
Being polite in all their communications	3.97	3.81	3.91*
Informing me how my money is spent	3.67	3.46	3.60*
Not asking me for support too often	3.71	3.43	3.61**
Making me feel important	3.31	3.23	3.28

\*Significant difference at the 0.05 level.

\*\*Significant difference at the 0.01 level.

tive where performance fell short of expectations and positive where performance exceeded expectations. The results of the analysis are reported in Table 4.6.

In general the results indicate a reasonably good match between performance and expectation. The mean gap is actually very small: -0.06. However, the largest gaps would appear to lie on the dimensions “leaving it to me how much to donate” and “not asking me for support too often.” Donors appear to feel that the participating organizations fall short of expectations on this dimension.

A number of significant differences emerged between donors and lapsed donors. In each of the cases highlighted, lapsed donors had significantly less favorable perceptions of the nonprofit than active donors did. Lapsed donors were significantly more likely to say that the nonprofit was impolite, failed to make them feel important, or allowed them adequate scope to make a donation of their own choice.

***Reasons for initial support***

Respondents were then asked to indicate why they had started to support each of the participating organizations by noting the relative importance of each motivating factor on a scale of 1 through

**Table 4.6. Gap analysis**

<i>Statement</i>	<i>Mean Active Gap</i>	<i>Mean Lapsed Gap</i>	<i>Overall Gap</i>
Asking for appropriate sums	.31	.22	.27
Leaving it to me how much to donate	-.47	-.63	-.52*
Thanking me for my gift	.22	.06	.17
Responding quickly when I contact them	-.14	-.23	-.17
Demonstrating they care about me	.27	.08	.21*
Being polite in all their communications	-.08	-.24	-.14*
Informing me how my money is spent	-.33	-.52	-.39
Not asking me for support too often	-.65	-.80	-.70
Making me feel important	.89	.66	.81*
Average gap	.02	-.18	-.06**

\*Significant difference at the 0.05 level.

\*\*Significant difference at the 0.01 level.

5, where 1 means “very unimportant” and 5 “very important.” The results are reported in Table 4.7.

The results indicate that donors are generally motivated in the first instance by a feeling that the organization approaching them for funds had a good reputation. They also felt a high degree of affinity with the cause and thought that the organization’s management was professional. Other reasons for support achieved mean score rates indicating general disagreement. Donors do not see themselves as pressured into supporting for the first time by either friends or relatives or by the organization. The responses appear to indicate that donors engage with causes initially on an intellectual level rather than through a family-inspired or emotive occurrence.

A few significant differences emerged between active and lapsed supporters. Lapsed supporters were significantly more likely to cite being pressured in the initial approach. They also appear to have felt some obligation to give, perhaps due to pressure from a friend or loved one. Interestingly, they also expressed less initial affinity with the cause.

**Table 4.7. Reasons for initial support**

<i>Statement</i>	<i>Mean Active Score</i>	<i>Mean Lapsed Score</i>	<i>Overall Mean</i>
I believed X’s management to be professional.	3.86	3.77	3.83
I felt it was expected of me.	2.11	2.25	2.16*
I felt pressured into giving.	1.67	1.95	1.76**
I felt that someone I know might benefit from my support.	2.52	2.77	2.61
I felt that X had a good reputation.	4.20	4.13	4.18
I found X’s original approach to me professional.	3.74	3.66	3.71
I thought my family/friends would expect me to give.	1.56	1.66	1.59
I wanted to give in memory of a loved one.	1.52	1.67	1.57*
My family had a strong link to this cause.	1.58	1.66	1.61
I felt a strong affinity with this cause.	3.85	3.57	3.76**
There were tax advantages.	2.23	2.33	2.27
A friend/relative asked me to support them.	1.60	1.81	1.67*

\*Significant difference at the 0.05 level.

\*\*Significant difference at the 0.01 level.

### *Donor demographics*

As a final step, the demographic profile of active and lapsed supporters was compared. Very few differences emerged between the two groups. The mean age of active supporters was found to be fifty-nine, and the mean age of lapsed supporters was found to be fifty-five. Lapsed donors are significantly younger on average than active donors.

Active donors were no more likely than lapsed donors to be higher-income earners. No significant differences emerged between the two groups on the variable income. Despite this parity, lapsed donors to participating organizations were found to be worth rather less to the sector. The mean amount donated to the sector during the past financial year was only \$8,665 compared with \$10,800 for active supporters.

In the case of active supporters, their gifts to the participating organization in the previous year amounted to an average of 7.61 percent of the total typically donated to the sector. This suggests that donors support a number of nonprofit organizations.

Perhaps one of the most important differences to emerge between the two groups was related to the religion variable. Those who regard religion as being very important in their lives are significantly more likely to lapse than those who lack this commitment. Although this might at first sound counterintuitive, it is likely that the giving of many such individuals may reflect the influence of the church and in particular those causes that the church promotes as being worthy.

In all other respects, lapsed and active donors appear identical.

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### *Implications*

The results of the research have profound implications for professional fundraising practice. A broad range of factors appear to be important to donor retention. Notable among these was the finding that a large number of lapsed supporters are not lost to the sector as a whole. A significant proportion of individuals simply elect to

transfer their support to a different charitable organization over time. This appears to be particularly the case where the donor elected to give only a small percentage of his or her charitable funds to the organization in question.

If nonprofits are to succeed in retaining donors, it seems clear that they need to secure a higher proportion of an individual's giving, improve satisfaction with the quality of service provided, and deepen the bonds that exist between them and their supporters. It is particularly disturbing to note that so weak are these bonds in some cases that almost one in ten lapsed supporters have no memory of ever having supported the nonprofit in the first place.

Delivered service quality would seem to be as much a prerequisite to customer retention as the literature suggests it is in the for-profit sector. Lapsed donors have significantly poorer views of delivered quality than active supporters and in particular tend not to regard the organization as providing adequate feedback about how their donation has been used. This is a dimension of fundraising activity that should receive particular attention in the future. Similarly, the perceived quality of donor communications would appear related to the longevity of the supporter relationship. Those donors perceiving that the communications strategy reflects their needs tend to be more loyal than those who do not. It may therefore be in the best interests of many organizations to monitor the perceptions of their donors in this regard. This attention will necessitate some additional expense, but the returns in greater satisfaction and donor loyalty should greatly outweigh this initial investment.

In short, it would appear that nonprofits have to become much better at managing the components of their relationships with donors. The results of this study suggest that to engender loyalty, nonprofits need to improve both the quality of their communications and the choice that they offer in respect thereof. One possible strategy would be to adopt a relational approach to fundraising. This would allow the donors once recruited to select the pattern of communication they would wish to receive and thereby enhance

satisfaction. A few nonprofits, for example, currently offer donors the opportunity to specify how frequently they would like to hear from the organization, whether they would like news about how their gift has been employed, and whether they would like such news but not additional letters asking for money. Given recent developments in database technology, there is no reason that even small nonprofits cannot manage the requirements of their individual donors and ensure that each receives a pattern of communication identical to that they have specified. Indeed, if donors can be offered an additional opportunity to interact with their chosen nonprofit, it would seem ultimately rather unlikely that they will lapse simply because they have no memory of ever having supported the organization concerned.

With nonprofits failing to meet donor expectations in respect of both the frequency of communication and the sums of money demanded, it seems clear that nonprofits should also offer donors some choice over whether they wish to be asked for specific sums. Some donors may well welcome guidance about the appropriateness of certain gift levels. Others may prefer to make such decisions themselves and not be prompted by the nonprofit. Again, there is no reason that nonprofits should not capture this information and use it to inform the communication strategy employed. Moreover, a consideration of relational issues, such as donor lifetime value, would ensure that where specific sums are requested, these are appropriate given the financial ability of the donor.

Although there are few opportunities for nonprofits to expand their donor base greatly, there would appear to be ample opportunity to improve the percentage of donors they are able to retain. Such a change in emphasis would not only ensure the stability of the funding base; it would greatly improve donor satisfaction, public perceptions of the sector, and ultimately the returns accruing to the fundraising activity of the organization concerned. It is far better to retain a donor than to attract a new one, and the time for fundraising practice to reflect this reality is long overdue.

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