



TO PREMIUM OR NOT TO PREMIUM?

Answering the age-old question about getting the most from your direct marketing campaign.





INTRODUCTION

At some point, every fundraising department has the conversation. That conversation.

It could be a casual talk over lunch between two people or a heated, department-wide debate spanning three fiscal quarters. But eventually, all nonprofits face the question: *should we use direct mail premiums to raise money?*

The following whitepaper shines a bright light on the issue as it reveals little-known aspects of both premium and non-premium campaigns and the pros and cons of each. Which route should your nonprofit take? Keep reading to make a more informed decision.

PREMIUM MAILINGS



At their core, premiums are essentially gifts sent by organizations to entice an action. They're usually something tangible, and they're also one of the most recognizable direct marketing tactics. As a consumer and mail recipient, you yourself have likely

received a direct-mail premium – similar to a wall calendar or a booklet of address labels with your name on them. We've all seen them, and for those of us in the nonprofit world, we also have likely sent them.

While premiums vary as widely as the causes of the organizations that offer them, they can generally be grouped into two categories: front-end and back-end. Front-end premiums almost always cost less than

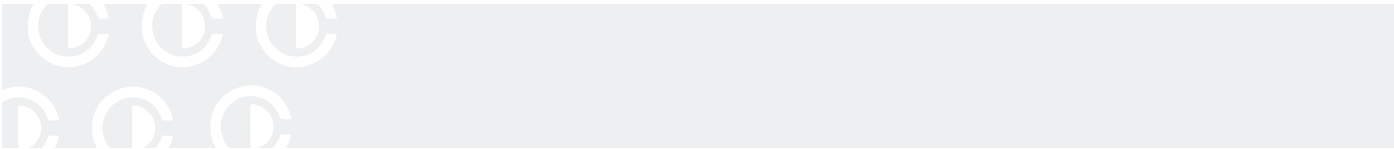
back-end premiums. (For direct mail fundraising, costs are typically around \$0.05 to \$1.00 for front-ends, and \$2.00 to \$5.00 for back-ends.) The way they're used is also different. With front-ends, organizations give a premium, then get a donation. Back-ends work in the opposite order: Donors have to give a donation first, then receive a premium.

Pros

So why do organizations use premiums to raise money? Pure and simple, they work. On front-end campaigns, we've seen premiums increase response rates 15-55%.

What causes such a lift?

One of the reasons premiums are so effective is that they get people to open the appeal, even if it's only to get to the contents. Once the piece is opened, recipients



are more likely to read the message, learn about the organization and the need, and then respond to the appeal. Just as Wayne Gretsky advises, “You miss 100% of the shots you don’t take,” so your appeal fails with 100% of the people who don’t open it. Without that premium to entice them, recipients may never have opened the envelope in the first place.

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And, with the growth of advanced printing techniques, organizations can personalize premiums with breathtaking efficiency.

This results in a deeper, more immediate connection between the recipient and the organization (and ultimately, a better response rate). After all, who doesn’t like when someone they meet at a party remembers their name?

Once the recipient opens the package and has the premium in-hand, it continues to work through a powerful force: *guilt*.

Consider the notion of reciprocity. Studies have routinely documented a deep-seated drive in humans to live up to the concept of “fairness.” When someone lends us money, we usually strive to pay it back (or at least feel the need to do so). When someone compliments us, we look for ways to compliment them in return. When someone gives us a gift, we feel indebted to return the favor. Premiums work in the same way: When nonprofits send us a gift, we feel obligated to send them money for it.

But even if recipients keep the premium without returning a gift, premiums continue to work for your fundraising effort. Every time they’re viewed, they

serve as physical reminders of the organization and its mission. When the premium is properly matched to the cause – and it’s something donors want to keep – that premium becomes a perpetual advertisement for your organization, proudly displayed in the living room or office of one of your “ambassadors.”

With proper testing and understanding of the target demographic, an organization has the potential to see a significant increase in both one-time and ongoing donations, especially when the premium is well-suited to the audience and cause.

Cons

There is a significant risk associated with the cost of investing in premiums, particularly on front-end mailings. (Back-end mailings are much easier to manage – you simply price the donation threshold high enough over your cost of the premium so you make your desired return.) The safest way to execute a front-end premium campaign is to first test the combination to a small segment of your donor file. But, even these tests can be expensive, especially when conducted repeatedly without success.

Another downside to sending premiums can be its impact on gift metrics. With premium mailings, we typically see a lower average gift amount than in non-premium mailings. Though this can be offset with an increase in response rate, it does add another dimension to the profitability calculation. What marketers must account for, then, is the ultimate revenue difference between more people giving less money (for a premium mailing) versus fewer people giving more money (in the case of a non-premium mailing).

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Premiums can also convey an unspoken message. When people receive them, it's common for some to think, "Why is this organization wasting so much money?" This potential reaction poses a significant challenge for the fundraiser who doesn't want their organization to appear fiscally irresponsible. And this can be especially true for environmental organizations – in the mind of a potential donor, how would a fundraiser or marketer reconcile a save-the-trees message when their direct mail package is full of printed premiums?

Worse still is that premiums can train donors to expect a gift. This ends up building a transactional relationship where donors only give when they get a premium that they think is on par with their donation. We've seen programs where nonprofits used a \$1.00 front-end premium to acquire new donors. Because those donors were introduced to the organization through a "transaction," they wouldn't give to any non-premium mailings. This ultimately crippled retention and conversion rates for that organization's file.

All of these considerations factor into the popular direct marketing metric of Lifetime Value, or LTV (also known as Customer Lifetime Value). This is a measurement of the amount of money an organization will collect from a donor for as long as that donor is engaged. Because Lifetime Value is a combination of frequency of gifts, amount of gifts, and duration of the donor's relationship with the organization, marketers must look at the long-term objectives when evaluating premium mailings.

NON-PREMIUM MAILINGS



For the organizations that choose to avoid premiums all together, there are other ways to effectively run a direct mail campaign. First, an organization may choose a messaging-only approach to fundraising and rely entirely on the organization's cause to elicit support. The rationale is that cause (and that cause alone) is enough to engage donors' passion and motivate them to send donations. Of course, this messaging can be shared in different ways – long letters, infographic inserts, urgentgram, etc. – but the solicitations are most often some permutation of:

- Here is what we do.
- Here is why it's relevant to you.
- Here is how you can help provide a solution.

Another effective non-premium tactic is to modify the outer envelope (OE). The most successful of these tactics are typically closed-face OEs (no clear-plastic window), blind OEs (little or no branding), and affixed postage stamps. These tactics successfully leverage recipients' curiosity to get the package opened. While some organizations will test OE teasers ("*Open Immediately*" or "*Urgent Financial Documents Enclosed*"), performance is typically sub-par. Same with modifications to OE size, color, and paper texture.

Finally, you as a marketer can employ tactics inside the envelope to better engage readers with the messaging. Within the letter, for example, you can test powerful or emotive imagery to create a sense of urgency in the reader, such as, "While you were reading this letter, three children were afflicted." Similarly, you can adjust the messaging along the spectrum of rationale (facts/figures/deadlines) to emotional (storytelling/human impact). And of course, involvement devices (buck slips, lift notes), personalization, and regionalization are all at your disposal.

Pros

Historically speaking, non-premium approaches are generally driven by cost, and on that front, they excel. Quality non-premium packages can be produced for pennies per piece. And, with no bulky premium to ship, postal costs remain low, too. All these cost savings mean that the packages don't have to work as hard to achieve a similar ROI.

Cons

The best advantage to a non-premium campaign is the depth of the bond created with donors who respond – though there will be fewer of them. Long-term, the donors who write the biggest checks will be the ones who believe in the mission and want to support it – not because of a physical gift. In fact, the LTV of an impassioned non-premium donor almost always exceeds that of a donor who first learned of the organization through a premium solicitation. This is often immediately apparent in early campaign metrics – average gift amount in non-premium campaigns is almost always higher than in premium campaigns.

Unfortunately, there is also a downside to non-premium campaigns: Without an incentive, a lot of people simply won't act. And that's not an offense to the organization – it's human nature.

The truth is that it can be much more difficult for organizations to drive lasting success, especially in acquisition, solely with non-premium mission-based campaigns. (Cancer-related organizations seem to do well with these types of appeals, but they are the rare

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exception, perhaps because most people know of the disease and have either experienced it for themselves or know someone who has battled it.) Most nonprofits, though, have a hurdle to clear in that they need to introduce their organization and their cause, articulate the value they add, and motivate a person to donate – all without losing their audience's attention, and that can be difficult.

Further complicating matters is the challenge around how to most effectively articulate the mission, how your organization is making an impact, and why someone should support your work. And you have to do it without sounding like a slimy used-car salesperson.

THE HYBRID APPROACH

We're all familiar with the disclaimer: every situation is



unique. But what seems to work best for all organizations is a true blend of tactics.

The idea is to be heard among the noise. To stand out in the mailbox. To speak to donors in the way they want and expect to be reached.

And that varies as widely as the different organizations looking to gain a donor's attention.

There's no magic formula or silver bullet when it comes to the most effective direct mail marketing campaign. But above all, knowing your audience and giving them what they want is key.



For some organizations, a strict premium-only approach will be most effective. For others, whether out of necessity or strategy, their campaigns will thrive if they incorporate premiums but keep them to a minimum. For most, it takes a delicate balance of premiums, non-premium tactics, and a carefully crafted message to succeed. And this balance will likely change as donors continue to engage with your organization over time. But how do you find that delicate balance? A few organizations can do it in-house, but the vast majority

of nonprofits rely on outside services. A good direct marketing company should work closely with key leaders in your organization, guiding them through the process of exploration. They should work with you upfront to build a budget that employs a balance of offers and messages. And then, they'll guide you through the critical process of testing, analysis, and execution to find what works best for your organization and its audience.

CONCLUSION



So, are premiums right for your organization?

Tough question to answer, we know. We hope that after reading this paper, you recognize that there are very compelling arguments to be made on both sides and that the question goes deeper than most people initially think. If you need help sorting through those arguments or wrapping your head around the various aspects of the decision, we're only a phone call away, and we love to give advice. Thank you for reading.

MAY WE BUY YOU A CUP OF COFFEE?

Let's chat about how we can custom-tailor strategies and solutions to help you meet your organization's most pressing goals. We cordially invite you to a **Coffee & Conversation** where we'll analyze any area of your direct response you'd like and share our recommendations in a complimentary 30-minute consultation and a one-page report that will help you take confident next steps.

Here are some popular Coffee & Conversation topics, but we're open to evaluate any area of your program. Let's chat!

Campaign Review

Give us your best, your worst, or your most challenging fundraising campaign along with your results report and/or audience insights and we'll provide actionable suggestions on ways to enhance your results.

Data Review

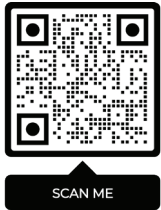
Let us uncover the hidden trends and takeaways from your program reports. We'll share our high-level insights on your trends (good and not so good) so you can make better-informed decisions.

Website Review

Are your site visitors taking the desired next steps? Pick our brains to explore how to best optimize your site, increase engagement and help you meet your goals online.

Production Review

Deadlines, set-ups, papers, lettershop and all things mail production. Let's explore where you can gain efficiencies and savings with your direct mail and print production.



Schedule **Coffee & Conversation** with us [here](#) or scan the QR code. We'll send you a virtual cup of coffee to enjoy – on us!

ABOUT CONCORD DIRECT

Great listeners. Great strategists. Great implementors.

Nonprofits rely on Concord Direct to advance their missions by building and activating audiences across direct mail, email, websites, online advertising and social media. Our data-driven strategies, expert creative, and efficient execution means that the investment you make in fundraising will deliver measurable impact.



To learn more, maximize engagement, and start reaching your goals, visit us at concorddirect.com.

800.258.3662 | 92 Old Turnpike Road, Concord, NH 03301