

# Creating a Successful Preauthorized Gift Program

Would you like to reduce your fundraising costs, increase the lifetime value of your donors, while making it as easy as possible for your donors to give on a regular basis? It may seem too good to be true, but by creating a successful *preauthorized gift program*, you really can achieve all these benefits for your organization.

Name	Pledge Amount Due	Pledge Collected
Mr. & Mrs. Jim Barkley	\$500.00	YES
Mrs. Kathy Demetral	\$250.00	YES
Mr. Jacob Dotsaur	\$100.00	YES
Mr. Edward Grant	\$125.00	YES
Ms. Joan Jett	\$75.00	YES
Mr. & Mrs. George Keelerlober	\$50.00	YES
Mr. & Mrs. Alvin Relles	\$1000.00	YES
Mr. & Mrs. Rodger Sandstone	\$125.00	YES
Mr. & Mrs. Schoenburg	\$50.00	YES
Mr. & Mrs. Gene Smith	\$25.00	YES
Mr. & Mrs. Harvey Smith, Jr.	\$75.00	YES
Mr. & Mrs. Peter Smith	\$25.00	YES
Mr. & Mrs. Wayne Smothers	\$75.00	YES
Mr. & Mrs. Ken Snyder	\$100.00	YES
Mr. & Mrs. Steve Stern	\$200.00	YES
Mr. & Mrs. Alvin J. Stinson	\$25.00	YES
Mr. Larry Swabon, Jr.	\$2500.00	YES
Mr. Floyd Taggart	\$100.00	YES
Mr. & Mrs. P. Parsonson	\$100.00	YES

## What are Preauthorized Gifts?

Preauthorized gifts (also called recurring, sustaining or regular giving) are just pledges for which the donor has authorized your organization to automatically collect a specific amount each month (or other cycle). The authorization could be for a specific length of time, or preferably could be for an indefinite period (e.g. perpetually until the donor elects to discontinue it). This, of course, means that your donors never have to make another decision whether or not to give.

Preauthorized gifts can be collected by several forms of electronic funds transfer (EFT), including payments by credit card or by a direct debit to the donor's checking or savings account. Although credit card payments tend to be more popular with donors, bank drafts (often known as ACH transactions because they are processed through the Federal Reserve's Automated Clearing House (ACH) system) offer their own set of unique advantages, such as lower costs and no expiration dates.

The most successful Preauthorized Giving programs allow donors to give in whatever way they prefer. We will discuss later the specific trade-offs between credit card and ACH payment processing.

## Why Setup a Preauthorized Giving Program?

There are many benefits to developing a Preauthorized Giving Program, according to Harvey McKinnon, author of *Hidden Gold* and a leading authority on monthly giving programs. His book provides the following list of some compelling advantages.

- **Dramatically increase your annual income** – In studies he conducted, donors have generally given at least 100% more money once they sign up for a monthly giving program. In some cases, the rise is even more dramatic – up to 1200% higher!

*28% of donors say they would probably or definitely consider making recurring donations if it were offered.*

- **Build a better relationship with your donors** – Monthly giving programs can help draw donors closer to your organization. They become among the best people to approach for special events, and they are most likely to bequeath money to your organization in their wills.
- **Donors will keep giving longer** - “The drop-off rate is so low – usually two to eight percent per year – that many of these donors will continue giving a decade or longer after they first sign up. Once a donor agrees to participate, it’s much easier for them to continue than to drop off. To lapse, they must not only decide to cancel, but also notify you (which provides an opportunity to encourage them to continue). In short, people keep giving because of one of the most powerful forces in human history – inertia.”
- **Monthly giving revenue is predictable**, guaranteeing you a minimum level of cash flow every month.
- **Lower your fundraising costs** by saving on solicitation mailings, pledge reminders and check processing.
- **Income will grow over time** by gradually building your base of preauthorized donors and periodically encouraging existing donors to increase their monthly commitment..
- **Monthly giving is convenient** for both you and the donor. No checks to write, no reminders needed, and the elimination of time and money wasted on mail and phone solicitations..

*Peace Action processes thousands of preauthorized donations each month, averaging \$30,000-\$40,000 in gifts.*

### **Duplicating Others’ Success**

According to Mr. McKinnon, electronic payments are actually more common in other countries. He notes that 50% of Canadians, 85% of Europeans, and 95% of Japanese use EFT to pay their bills or contribute to charity. While figures for the US are much lower, electronic payments are growing very rapidly in popularity and are expected to match international use within just a few years.

According to research sponsored by MasterCard International, only 3% of donors report using credit cards to make automatic donations, but 28% say they would probably or definitely consider making recurring donations if it were offered to them by their selected charitable organization.

The untapped potential in offering a preauthorized giving option is demonstrated by the success of organizations that have begun programs. Peace Action currently processes thousands of preauthorized donations each month, averaging \$30,000-\$40,000 in gifts.

## How to Implement a Recurring Donation Program

Establishing a successful program will require several steps:

- Educating your staff and donors about recurring donations via EFT.
- Developing solicitation methods to recruit recurring donations.
- Ensure you have the technology to easily manage & process recurring gifts.
- Testing of processes and procedures.



*Recurring gifts lower costs so more of your gift supports your mission.*

### **Education**

The key to starting a program is to first educate your staff and board members about recurring donations. They will need to understand the benefits to both your nonprofit as well as to the donor. Once they are up to speed, they can help in the development of successful strategies and procedures to encourage donor participation, and spread the word to those interested in your cause.

Educating donors involves not only explaining the benefits of a recurring donation program, but also addressing any concerns they may have. All of your communications should make it clear that they can stop participation at any time, that paying by bank draft or credit card is safe and secure, and that by reducing administrative costs, an even greater portion of their gift will go to supporting your mission.

It is also important to communicate to donors how their participation in the recurring donations program will give them special status as a contributor. Since these donors can become the “golden geese” of your fundraising, they should be treated as such. It’s important to thank them appropriately when they sign up, and to continually recognize their ongoing contributions. Many nonprofits have created a special designation (such as sustaining members) to identify donors who have committed to recurring giving, as well as offering special gifts or benefits and acknowledging them at special events or in publications.

You should recognize that your communication with recurring givers should generally be different from those who have not made an ongoing commitment. They should probably be excluded from most of your normal direct mail or telephone solicitations. Of course, they should still receive regular information on how their contributions are being used to successfully achieve your mission. Instead of your standard solicitations, these donors should be targeted only with annual upgrade appeals that thank them for their past support and encourage them to increase their commitment level. These appeals should make it clear that they only need to respond if they wish to increase their gift amount (or change the credit card or bank account information).



### Successful Solicitation Methods

Building participation in recurring giving programs requires an integrated approach to solicitation. Decide how best to incorporate this option into your existing mailings, phonathons and other campaigns. Recurring donations can be solicited in exactly the same ways as one-time gifts, but tend to be most successful with donors who have already given to your organization.

Many nonprofits promote the start of their programs with a special appeal targeted at generating recurring gifts, which explains the benefits to the organization and the donors. All solicitations should provide a simple and convenient way for donors to sign up to participate.

**BECOME A SUSTAINING MEMBER!**

**YES, I want to help! Here's my commitment to a monthly gift:**

\$100   
  \$50   
  \$25   
  OTHER

**CHOOSE ONE:**

<input type="checkbox"/> <b>Checking Account Transfer</b> (Voided check must be attached)	<input type="checkbox"/> <b>Credit Card Charge</b> ___ Visa ___ MasterCard ___ AMEX ___ Discover _____ (Credit Card Number)                      (Exp-month/year)
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Name \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

I hereby authorize your organization to arrange automatic payments from my account on the 8th day of each month. I understand I may cancel at any time.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Building a successful program requires a long-term commitment and consistency of effort. It will take time to grow participation; so don't be discouraged if you only have minimal success at first. Just a few initial participants will begin to provide increased revenue and will help you fine-tune your processes and procedures, as well as determine what solicitations work best for recurring donations. Once initial participants learn the convenience, efficiency, and other benefits of preauthorized giving, it won't take long for them to recommend it to other donors.



### The Role of Technology

Perhaps the most important tool in creating and maintaining a successful recurring gift program is having what Harvey McKinnon calls an "efficient and responsive back-end system". This consists of a donor management system and EFT transaction processing.

### Donor Management System

A good donor management system is much more than simply a database of donors and prospects. It must provide you the tools that make it quick

and easy to handle the many tasks associated with your preauthorized gift program (as well as your other fundraising efforts). Here is a checklist of some important capabilities:

Want a complete checklist of fundraising software features?

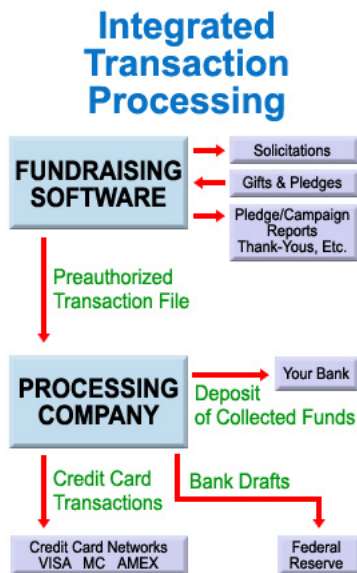
Send email to:

[checklist@donorperfect.com](mailto:checklist@donorperfect.com)

- Maintain complete donor/constituent information**
  - Ability to easily code donors as participants in “sustainer” program
  - Easy filtering on donor codes for campaigns/reporting
- Track complete giving history with automatic calculation of gift summary by year**
  - Ability to segment donor database by gift size/recency/frequency to identify best sustaining gift prospects.

Frequency	Donor Count	Percent	Total Raised	Percent	Average Gift
1 Gifts	23931	45.92%	\$1,100,660.96	6.87%	\$45.99
2 Gifts	8467	16.25%	\$942,662.30	5.88%	\$111.33
3 Gifts	5499	10.55%	\$674,530.97	4.21%	\$122.66
4 Gifts	3936	7.55%	\$749,533.25	4.68%	\$190.43
5 Gifts	3209	6.16%	\$613,929.21	3.83%	\$191.31
6 Gifts	2878	5.52%	\$689,052.49	4.30%	\$239.42
7 Gifts	1841	3.53%	\$833,905.37	5.20%	\$452.96
8 Gifts	1002	1.92%	\$738,290.71	4.61%	\$736.82
9 Gifts	565	1.08%	\$211,451.06	1.32%	\$374.25
10 & More Gifts	782	1.50%	\$9,474,467.09	59.11%	\$12,115.69
<b>Totals</b>	<b>52110</b>	<b>100.00%</b>	<b>\$16,028,483.41</b>	<b>100.00%</b>	<b>\$307.59</b>

- Solicitation Generation/Tracking**
  - Personalized letters, labels, emails and mailhouse exports
  - Tracking of solicitations sent
- Gift/Pledge Management**
  - Ability to record pledges received including payment cycle (monthly, quarterly, etc.), pledge amount (per cycle) and end date (hopefully indefinite)
  - Ability to enter and store (just once) credit card or bank account information for preauthorized payment
  - Ability to associate each gift with a specific solicitation, and report on campaign success rates
  - Ability to designate appropriate personalized gift thank you
  - Integration with transaction (credit card and ACH) processing service
- Reporting**
  - Pledge Summaries
  - Pledge Cash Flow Projections
  - Year-End Donor Gift Summaries (for tax purposes)
  - Soon-To-Expire Credit Cards
  - Preauthorized Pledge Transaction Previews



### EFT Transaction Processing

Although many nonprofits have begun to accept credit cards for either online or one-time donations, it is important to recognize that preauthorized recurring transactions are typically processed as a batch and therefore they have some unique attributes. You certainly don't want to waste time and increase the chances of error by entering credit card numbers and amounts into a credit card terminal each month. As we have also noted, you will probably want to offer the option of payments by direct debit (ACH), which require a different type of processing account.

Beware of EFT processing solutions that do not integrate with your donor management system. Although they may allow you to automate the process of generating and collecting the transactions, you are likely to be giving up several important benefits such as:

- Ability to automatically generate and transmit the batch of transactions without any double entry.
- Having the donor's giving history automatically updated to reflect the payments collected.
- Providing a comprehensive and holistic view of all of your donors and gifts for processing and reporting.
- Simple (preferably single) account and process for both Credit Card and ACH transactions
- Low monthly fees – This is particularly important if you are just starting a recurring giving program since your transaction volume may be modest at first.

### About The Author

Frank Chudnow is the Vice President of SofterWare Inc. He has spent over 25 years working with non-profit organizations. Prior to joining SofterWare he founded and directed the Madison Mutual Housing Association, a developer and manager of scattered-site low income housing.

### About DonorPerfect

SofterWare has been a leading provider of software solutions to the non-profit community since 1981. Our DonorPerfect and DonorPerfect Online fundraising software is used by thousands of organizations throughout the world.

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### Conclusion

A recurring donations program is a great way to increase the lifetime value of your donors while reducing fundraising costs and efforts. Developing an effective recurring donation program requires you to properly educate staff and donors, carefully target and test solicitations to attract participants, and ensure that you have efficient and responsive back-end systems (donor management and transaction processing) to minimize administrative effort. Although success may take time and effort, the end result is well worth it.

### Sources

MasterCard International, *Recurring Donations* [www.mastercardmerchant.com/build\\_business/recurring\\_donations.html](http://www.mastercardmerchant.com/build_business/recurring_donations.html)

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