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Notable Books

Building Donor Loyalty: The fundraiser's guide to increasing lifetime value

By Adrian Sargeant and Elaine Jay

Reviewed by Mal Warwick

Strong Medicine: Creating incentives for pharmaceutical research on neglected diseases

By Michael Kremer and Rachel Glennerster

Reviewed by Michael K. Gusmano

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BUILDING DONOR LOYALTY
The Fundraiser's Guide to Increasing Lifetime Value

Adrian Sargeant and Elaine Jay

(San Francisco: Jossey-Bass Publishers, 2004)

Reviewed by Mal Warwick

You would have been shocked.

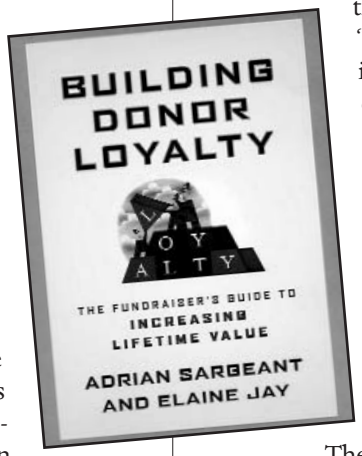
My firm had been retained by a national health organization to help determine how to promote legacy giving among some of its hundreds of thousands of direct mail donors. We had agreed to begin the process by simply *asking* donors to share their feelings about the organization, its fundraising practices, and legacy giving generally. The result was a series of focus groups – but the participants' comments were not, shall we say, encouraging.

In fact, the focus groups surfaced one complaint after another. Complaints about donor acknowledgements that arrived long after new solicitations: complaints about excessive mailing, unresponsive staff, unanswered questions, uninformative communications, uncorrected addresses. You get the point. These were not happy campers. And – no surprise here! – legacy gifts would not be forthcoming.

To understand how this pattern might have developed – and why – I suggest you read "Building Donor Loyalty." In one surprisingly slim volume – just 197 pages – Adrian Sargeant and Elaine Jay have brought to light the latest research findings and the latest thinking about what makes donors tick.

Most previous books on fundraising fall into one or another of three types: off-the-cuff tales by practitioners on the front lines of the field; jargon-heavy tomes that are intended to be used as textbooks or to sit on shelves as references; or academic studies brimming over with complex formulas, polysyllabic pronouncements, and an inordinately heavy use of the passive voice.

Happily, "Building Donor Loyalty" doesn't fit in any one of those categories. The writing style, though inelegant, is straightforward and easy to digest. Most of the authors' assertions are backed up with references to their own research or to previous studies – but without intrusive footnotes. (There's an extensive reference list at the end, dominated by academic studies.) The authors have approached their material with the practitioner clearly in mind, illustrating in a practical, down-to-earth way the real-world best practices that nonprofit organizations can adopt to lessen attrition among the ranks of their donors. "Building Donor Loyalty" even includes a number of sample questionnaires, checklists, forms, and other tools that practitioners can put into practice with only modest changes.



If donor attrition isn't at the top of your current to-do list, consider two facts: (1) it can cost up to 10 times as much to reach a new donor as it does to communicate with an existing one; and (2) given today's typical donor attrition rates in direct mail fundraising, you will have fewer than 100 donors left out of every 1,000 after 10 years – in many cases, fewer than 50. Donor attrition is by far the single biggest problem facing many nonprofit fundraisers.

Given today's direct mail donor attrition rates, you'll have less than 100 donors left out of every 1,000 10 years from now.

In demonstrating how to combat this challenge, Sargeant and Jay explore three interconnected themes: understanding "relationship fundraising" and putting its principles solidly in place; building a monthly giving program; and improving the quality of the organization's service to its donors. These three ideas unquestionably lie at the heart of any rational strategy to boost donor retention.

The impetus for "Building Donor Loyalty" was a four-year research project Sargeant undertook in the United Kingdom and the United States, surveying the views of more than 20,000 donors on both sides of the Atlantic through a series of focus groups followed by a large direct mail survey. This was the largest study of donor loyalty ever undertaken. Sargeant and his colleagues asked lapsed supporters why they stopped giving and compared the views of active and lapsed supporters to uncover the issues and attitudes underlying donor loyalty or its absence.

Some findings were especially revealing. For example, Sargeant's team learned that "those expressing a strong religious conviction (irrespective of denomination) were much more likely to switch their support from one organization to another" (p. 13). This insightful revelation takes us much more deeply into an understanding of the dynamics of giving than the age-old truism that strong religious convictions are

a good indicator of a willingness to give.

Other findings from Sargeant's research are consistent with common sense. For instance, "Lapsed donors are significantly more likely than currently active supporters to have been seeking some personal benefit or reward for their giving" (p. 20). Similarly, "Individuals who feel they are not given enough choice over the form of their support and who believe they do not receive adequate recognition are significantly more likely to lapse" (p. 23).

In other words, common sense is a very useful tool in fundraising, as it is in most fields. But it's not infallible. Sometimes it pays to ask people who actually *know*, which is what Sargeant and Jay have done here so effectively.

–Mal Warwick has written or edited 16 books on fundraising and taught the subject to nonprofit executives from more than 100 countries.

STRONG MEDICINE Creating Incentives for Pharmaceutical Research on Neglected Diseases

Michael Kremer and Rachel Glennerster

(Princeton, NJ: Princeton University Press, 2004)

Reviewed by Michael K. Gusmano

The world is in the midst of a "longevity revolution." Between 1900 and 2000, life expectancy at birth increased from about 47 to 77 years, and life expectancy at 65 increased from 12 to 18 years. Furthermore, James Fries and other have noted a "compression of morbidity," which refers to a reduction in the amount of disability among older persons and its compression into fewer years at the end of life.[1] These remarkable gains in health and life expectancy, however, are not enjoyed by all. During the past 30 years, life expectancy has actually decreased in several nations including many countries in sub-Saharan Africa and, until recently, the Russian Republic. In the countries in sub-Saharan Africa, the situation is particularly dire. In Zimbabwe, for example, life expectancy at birth fell from 56 to 33 years between 1970 and 2000.

The HIV/AIDS epidemic accounts for much of this decline, but poor countries in Africa and other parts of the developing world also suffer alarming rates of infectious and parasitic diseases (IPDs). Many of the deadliest IPDs, including tuberculosis and malaria, can be treated with appropriate medication. Unfortunately, great poverty and inadequate healthcare systems make it difficult for people in poorer countries to receive the medication they need. To make matters worse, they often take incomplete courses of medication – either because they cannot afford to purchase a complete course or because they stop taking medication once they begin to feel better – which leads to the development of drug-resistant forms of diseases.

In "Strong Medicine: Creating Incentives for Pharmaceutical Research on Neglected Diseases," Michael Kremer and Rachel Glennerster argue that the creation and dissemination of vaccines that target these diseases would be the most efficacious means of addressing the spread of IPDs in the developing world. In contrast to paying for and distributing drugs to treat illness, vaccines do not require an extensive medical or public health infrastructure. Vaccines are, as the authors put it, a "cheap, simple technology."

In spite of the great potential of this technology for combating disease, there is very little research and development on the diseases that are most prevalent in poor countries and there are no vaccines for schistosomiasis, malaria, or HIV. The only existing vaccine for tuberculosis is limited in its effectiveness.

Why haven't pharmaceutical companies invested more in the development of vaccines for diseases that afflict the developing world? Kremer and Glennerster point to a combination of market and government failures that contribute to the inadequate investment. First, vaccines have what economists call "positive externalities." Because they help halt the spread of disease, people who do not consume vaccines benefit from them. As a result, the private value of a vaccine to the purchaser is not as great as its social value. Second, once a vaccine is developed, it is easy for other companies to copy it, so the firms that invest in their development cannot fully capture the benefits of this investment. Together, these features lead to market failure and drug companies do not produce an optimal quantity of vaccine. To some extent, the latter problem can be addressed through patent protection, but this often leads to a political backlash against the pharmaceutical companies. Furthermore, in an effort to keep prices low, poor countries often refuse to enforce patent protections.

To correct for the inadequate

investment in these technologies, Kremer and Glennerster call for adoption of so-called "pull" programs that guarantee a market for vaccines once they are developed. The pull approach to the underproduction of this "international public good" involves exploiting the profit motives of pharmaceutical and biotech companies for public ends – what economist Charles Schultze calls "the public use of private interest."[2] Traditionally, governments, multinational organizations, and private foundations have attempted to encourage the development of new vaccines and other drugs by providing incentives (e.g., grants, tax credits, etc.) for pharmaceutical and biotech companies to invest more in research and development, but unlike pull strategies, these "push" strategies pay for research inputs, not outcomes. In contrast, properly designed pull strategies reward pharmaceutical and biotech companies for developing effective products.

The idea of a pull program is deceptively simple, but, as Kremer and Glennerster explain, the execution can be rather complex. Effective pull programs require answers to a number of tricky questions. Which conditions should be targeted? How much of an investment is required to induce investment in the development of new vaccines? How much is a new vaccine worth? How can you guarantee an enforceable commitment? Kremer and Glennerster address each question in turn and provide thoughtful responses to each. Furthermore, they point to historical examples of successful pull programs, including the Orphan Drug Act, which includes push and pull mechanisms, as evidence that these programs can work in practice.

Despite the compelling argument these authors present for such programs, they admit that, to date, this strategy has not been adopted. If this is such a good idea, why hasn't it been embraced? As the authors note in the concluding chapter of the book, these programs face a variety of political obstacles. First, although pharmaceutical companies are likely to respond positively to the incentives created by pull programs, putting them in place is not a high priority for these corporations. They benefit substantially from existing push programs that subsidize their R&D efforts without requiring performance. Furthermore advocating for pull programs would force these companies to acknowledge, publicly, that their R&D decisions are driven by market considerations.

Third World nations with life expectancies 30 years lower than ours can't succeed in the global economy.

This book articulates a convincing strategy for overcoming the collective action problems associated with private investment in the development and production of vaccines to combat disease prevalent in the developing world. The World Health Organization and a host of other organizations and researchers advocate for the pull strategies described in this book. Few others, however, make the case for these strategies as well. The authors present the case for pull strategies, introducing several concepts from economic theory, while making the book accessible to a lay audience. They do so without eliminating the subtlety or complexity of the argument. This is an important book and a must read for anyone who is concerned about health and development.

The remaining challenge is to marry this vision to an equally effective strategy for overcoming the collective action problems associated with getting wealthy nations to create these programs in the first place. Kremer and Glennerster offer a solid analysis of the political obstacles, but their strategy for overcoming these obstacles is less well developed. The authors' plan for how to convince international organizations, governments, or private foundations to invest billions of dollars in a pull strategy to develop vaccines for the developing world is not as compelling as the rest of their analysis. The next step in the analysis requires an understanding of the politics of vaccine development that is as sophisticated as the economic analysis. It is important to convince the developed countries of the world that an investment in pull strategies is in their interest. Recent work in public health and economics, which suggests that improvements in health may lead to economic development, may advance this cause. If nations in the developing world continue to languish with life expectancies that are 30 years lower than the developed world, they will not be able to participate effectively in the global economy. Making this case may not be sufficient to generate action, but it may provide the basis for broader agreement.

–Michael K. Gusmano, Ph.D., a political scientist, is an assistant professor of health policy and management and Lauterstein Scholar at Columbia University's Joseph L. Mailman School of Public Health.

1 James Fries, "Aging, Natural Death, and the Compression of Morbidity," *New England Journal of Medicine* 303 (1980): 130-5.
2 Charles L. Schultze, "The Public Use of Private Interest" (Washington, D.C.: The Brookings Institution, 1977).