“It Pays to Trust the Science Behind Direct Marketing”

Direct mail marketing is truly a science. After you read this thought-provoking interview with our client, Mike Vcelik from Boys Town, you’ll see how, despite a tough economy, the fundraiser was able to sustain donor base growth of 20% year over year by trusting the science behind direct marketing.

Q. What is the story behind Boys Town?

A. Boys Town was founded by Father Flanagan in 1917. Our mission is to serve children and families. We provide a variety of services and programs that meet the individual needs of boys and girls and their families across America. Boys Town is the only child and family organization that offers a broad spectrum of treatment for youngsters’ emotional and behavioral problems, and provides expert health and medical care.

Here are some facts about Boys Town:

- We currently have 12 sites in 10 states and Washington, D.C.
- We served more than 400,000 children in 2008.
- The Boys Town National Hotline answers calls from all 50 states.
- 613 suicides were stopped in progress via the Boys Town National Hotline.

Boys Town is a privately funded organization that has a $200 million operating budget. We rely a great deal on support from the public, including our 900,000 donors.

Q. How do you use direct mail for your fundraising efforts?

A. We use direct mail to communicate to our current and former donors. These communications help us raise awareness and give people the opportunity to become involved.

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Dear Colleagues,

Happy New Year! I am excited and optimistic about what this year has in store for our industry, as well as for our organization.

One contributing factor to my optimism is that the United States Postal Service made what I believe to be a wise decision: refraining from raising rates in 2010. This price freeze will enable mailers to manage their budgets more effectively while continuing to deliver important information and marketing messages to donors, customers, members, and prospective consumers and businesses.

My optimism also stems from the accomplishments that our team here at Diamond Marketing Solutions made in 2009. This year, we launched our new online project management and mail tracking tool, DiamondView Mailing. We have further added to our expertise by gaining insight from the planning and implementation of thousands of client programs. We processed more than a billion records; mailed more than 500 million letters, flats, and postcards; and fulfilled more than a million orders for samples, collateral, gift cards, and other marketing materials.

We continued to broaden our experience in both the loyalty marketing and fundraising segments, as well as across many other industries. In 2009, we provided:

• Innovative production solutions for today’s savvy mailers, including complex imaging for scratch-off promotional materials, which are a great involvement tool for direct mail packages
• An online inventory ordering and management fulfillment solution that accommodates more than 10,000 of a clients’ employees across the globe
• Mailing and printing production expertise and efficiencies that helped a client affordably roll out an international loyalty program
• Online account statements to help a financial services client lower its costs and perpetuate its “green” initiative
• A variable data and image printing solution that provided an annual giving client with an affordable alternative for delivering dynamic messages

I’d like to express my sincere gratitude to all of you who have contributed to our success in 2009. We appreciate your business and look forward to a happy, healthy, and prosperous new year for our clients, prospects, and employees.

Sincerely,

Bruce D’Angelo
CEO

PS. Enjoy this issue of Frontrunner. Our client, Mike Vcelik from Boys Town, has shared some incredible insights into how he’s continued to increase the size of the organization’s donor base by 20% year over year for the past five years. Mike is a true believer in the science behind direct mail marketing. Read our interview with Mike on page 1.
Illinois Leaders Meet on the Hill

Advocating for direct marketers all the way to Capital Hill in D.C., Cyndi Greenglass, Diamond Marketing Solutions’ President of Agency Services, along with a group of industry representatives from the DMA, met with Illinois leaders to discuss key issues that directly affect our industry.

Cyndi had a jam-packed Illinois Day on the Hill, where she sat down face-to-face to discuss some key industry issues that may be on the agenda in the upcoming congressional session.

The meetings were private discussions within the inner circles of the following people:

- Representative Peter J. Roskam
- Representative John Shimkus
- Representative Bill Foster
- Representative Danny K. Davis
- Chief Legislative Aid to Senator Richard J. Durbin

All of them acknowledged the size of the direct marketing community in terms of jobs and GDP contribution. Each listened intently to the issues facing direct marketers today and shared concerns about privacy, postal reform, and tax reform. Here are some key discussion highlights from Cyndi’s visit:

DATA SECURITY & ONLINE DATA COLLECTION

Pressure has been mounting from the Hill, the administration, the Federal Trade Commission, and privacy groups to investigate and potentially regulate how consumer data is collected and used. The House Energy and Commerce Committee has taken a lead on these issues, including holding hearings on data security.

Diamond Marketing Solutions understands the growing concerns and liabilities regarding consumer data. We recently have become Payment Card Industry compliant, which means that we’re held to a higher standard in how we move data in, out, and within our facilities. This extra level of security helps protect our clients against data infiltration.

“Online Behavioral Advertising” is the buzz phrase on the Hill. They are wrestling with the differentiation between personally identifiable information, which can lead to identity theft, and marketing information that does not pose the same risk.

Here are some key challenges:

1. As e-commerce has remained a bright spot in the current economy, it is important that regulation does not stifle innovation, but allows for continued expansion.
2. Relevant advertisements enhance the consumer’s online experience.
3. DMA has joined in a coalition to introduce new self-regulatory principles for behavioral advertising. If you are interested in learning more about this initiative, visit www.the-dma.org.

CORPORATE TAX CHANGES FOR PHARMACEUTICAL COMPANIES

It has been suggested that the removal of the deduction for prescription drug advertising expenses could raise up to $37.5 billion towards paying for health reform. Direct marketers are

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concerned about this since:
1. Pharmaceutical companies use direct marketing as a highly effective vehicle for consumer education.
2. Removal of the deduction would unfairly tax the pharmaceutical industry for promoting its products.

**REDUCTION OF TAX DEDUCTIBILITY FOR CHARITABLE CONTRIBUTIONS**

There has been discussion on the Hill of a reduction in the amount that tax payers can deduct for charitable contributions. An administration proposal has suggested capping itemized deductions for charitable contributions at 28%, and the Center on Budget and Policy Priorities has recommended preventing the expansion of current itemized deductions for high-income filers.

This presents concerning challenges for the fundraising community since:
1. Fundraisers are struggling to provide the vital funds that enable organizations to pursue worthy missions.
2. Most fundraisers are reporting the lowest giving in decades.

**CYNDI’S WRAP-UP**

“It was a rare and unique honor to be part of this Illinois Day on the Hill. I came away with the firm belief that our elected members of Congress are knowledgeable, informed, and interested in hearing from their constituents. At the end of the day, we all marveled at how they are, in fact, some of the best direct marketers in the business, embracing mail, Facebook, email, and Twitter!”

*Industry leaders meet with Representative Foster at Illinois Day on the Hill. Representing Diamond Marketing Solutions is Cyndi Greenglass.*

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**5 Data Hygiene Tips**

By Andrea Bobo, Senior Account Manager

Address hygiene is an important part of all direct mail campaigns. It increases deliverability, eliminates invalid/unwanted records, and allows your mailings to qualify for postal discounts.

Here are five data hygiene tips that you may find useful:

1. **CASS/ACE/Standardization** – It’s all the same! CASS Certification is a USPS process that measures the accuracy of address-matching software designed to correct addresses and put them in the preferred USPS format. Some of the corrections include street and city spellings, adjusting or adding the zip+4, and abbreviating secondary address elements. The USPS requires that address standardization be performed every 90 days in order to receive discounted postage rates. Not all records can be standardized. Some records are clearly identified as undeliverable, while others are questionable and have a 50/50 chance of being delivered. Depending upon your mailing strategy, you may want to consider eliminating records that are identified as undeliverable through the address standardization process.

2. **Delivery Point Validation (DPV)** – DPV is included in address standardization processing. DPV validates accurate delivery address information down to an apartment or suite number. It identifies inaccurate, incomplete, and erroneous addresses. DPV does not correct addresses; it merely validates them. You may want to eliminate records that are identified as invalid.

3. **Address Correction Service (ACS)** – ACS is required every 95 days by the USPS to receive a postage discount. NCOALink is the most commonly used method. Other methods include Ancillary Endorsements, OneCode ACS, and IMB Full Service. NCOALink is available in two forms: Limited, which goes back 18 months, and Full, which goes back 48 months. If you are performing NCOA just to meet USPS requirements, NCOALink Limited is the most cost-
Postal Events That Marketers Should Watch For in 2010
By Don Harle, Vice President of Postal Affairs

Here is a look at the other events that marketers should be aware of in 2010:

- **January 4** – Move Update penalty enforcement begins. Those who don’t update their files as required will face significant penalties. This change should not be a concern to Diamond clients. Our NCOALink processing meets the Move Update requirement for your mailings.

- **January 4** – While there will be no postage increase for most mailers, postage rates will increase about 3.3% for Express Mail, Priority Mail, and packages. These increases are partially offset by increased discounts for commercial mailers.

- **February/March** – The USPS will give a first look at proposed mailpiece specification changes for folded self-mailer pieces. These pieces are self-mailers that do not have a stitched or glued spine. Paper weights and finishes will become important factors. Existing formats will be OK at least until the late summer or fall of 2010.

- **April/May** – The USPS is planning a Standard Mail Spring Sale similar to the 2009 Summer Sale. While the details are not yet available, there will likely be minimum volume requirements and threshold calculations, as there were for the Summer Sale.

- **September/October** – The new self-mailer rules will likely become effective. We won’t know the exact date until sometime in the spring, but it would be prudent to check with your DMS account manager for specification requirements on programs to be mailed after Labor Day.

- **November/December** – We could see a change to five-day delivery by the Postal Service. The USPS considers it an essential element in its restructuring to contain costs resulting from lower volumes. The organization has been doing extensive planning for this change. USPS research indicates that its customers would choose five-day delivery over the double-digit increases that would be needed to continue six-day service. However, Congress must approve the change. Some political observers say this won’t happen until after the November elections. The USPS would certainly like it to occur sooner. Actual implementation may not happen until 2011, but mailers should consider its implications on their operations.

5 Data Hygiene Tips, continued from pg. 4

- **4. Merge/Purge** – Eliminating duplicates is an important part of data hygiene, as it allows you to save postage by not sending multiple mail pieces to one recipient. Merge/Purge match logic is driven by the customer in relation to what the campaign is trying to accomplish.

- **5. Additional, enhanced hygiene options are available.** These options are typically selected as part of an overall data hygiene initiative, rather than on a mailing-by-mailing basis. These options include:
  a. **DSF2** – Identifies vacant and seasonal dwellings
  b. **DMA/Prison/Deceased Suppressions** – Identifies individuals in the DMA Do Not Mail File, records for correctional institutions, and individuals recorded as being deceased
  c. **Address Element Correction (AEC)** – USPS-supported product that attempts to correct records that were not corrected by CASS and DPV
  d. **NCOAMax** – Proprietary database that collects address changes from various sources, such as magazine subscriptions
Q. What can you tell us about the testing you do and how it is working?

A. Boys Town has been raising funds through its mailing efforts since the 1940s. We have an exceptional amount of data and historical records from which I frequently draw for ideas. With that said, we believe in incremental testing to continuously improve our product (message and package).

We test everything: lists, segments, envelopes (color, window, size), letters (artwork, voice, tone, message), and premiums. Every premium must meet the following criteria: Does it bring value to our donor? Can we brand it? Will the donor keep it in the household and continue to use it long after the mail package arrives? If the answer is “yes” to all facets, we’ll test it.

Recognizing that donors give from their heart has helped our organization pinpoint message and image ideas to test. I’ve researched and tested various elements from our past packages and found that they sometimes outperform our current control. For example, in reading letters written for our fundraising efforts, we recognized a gracious tone and soft ask coming from letters signed by Father Flanagan. We tested this type of messaging and found that it works very well for us. All of our messages are written in that voice and tone, with the objective of reinforcing to readers that they are part of a bigger community and their participation in that community truly makes a difference.

All fundraisers believe that they should be seeking younger donors, right? Well, we proved that conventional wisdom to be incorrect. Here’s how we tested the idea: We created a model of our file based on donors who were below 50 years of age. This segment constituted about 15 percent of our file. We used that list profile to build a prospect list and then mailed to the segment. Our results were less than half of our normal prospecting response rate. What did this tell us? Well, we believe that donors are ready and willing to donate at a particular point in their lives. Aside from that point, there’s really not a whole lot that marketers can do to change their behavior. When people are below the age of 50, they have so many financial obligations – college tuition, mortgages, retirement savings, etc. But once the kids have graduated from college and the mortgage is paid off, they tend to adopt a different outlook on life. Those individuals are more likely to be searching for a way to make an impact on society. We understand our donor base age demographic and do not waste valuable acquisition dollars trying to attract an age group that is simply not yet psychologically or financially ready to become part of our community.

Q. When budgets are tight, how do you convince your board that you need to continue to invest in prospecting?

A. Well, the answer is “this is a tough story to tell if you do not have the numbers to prove out the return on investment over time.” Here’s what I did: The challenge for most marketers is to communicate a very complex business that is both art and science and is quite often counterintuitive. Very simply stated, direct marketing looks easier than it is and is often oversimplified. The bottom line is: Business is about investments. Smart people want to see an educated estimate of what their return on investment will be before investing. That’s precisely where I focused. I put myself in the shoes of members of our finance department and said to myself, “What do they need to know in order to feel confident in my decision to invest this organization’s money?”

When I began my tenure here at Boys Town, prospecting was costing the organization about $3 for every dollar raised. I thought, “Where can I find a segment that will perform better?” My answer was lapsed donors. The organization held the belief that lapsed donors performed poorly when compared to active donors. This is true; however, lapsed donors typically outperform cold prospecting lists. In our experience, lapsed donors can be reactivated to active status at a break-even rate if mailed properly. Those reactivated donors have a one-year retention rate of 50 percent, while the prospect retention rate is just 30 percent. I
therefore began by shifting dollars that were being spent on prospect mailings to those targeting lapsed donors. The analysis of the associated tests showed that lapsed donors who made between two and five gifts were more likely to become active donors, whereas those who had only made one gift were less likely. So, I took the dollars I was spending on the weaker-performing group, lapsed donors with one gift, and shifted that portion to true prospecting. I was still getting a good return for my dollar and experienced nice growth in my donor file with this mix. The strategy for this budget shift to lapsed donors was to allow time to test and improve prospecting results. After our prospecting results improved through testing, we were able to increase our prospecting because of the improved ROI. At that point in time, your mailing plan becomes a balancing act between prospecting and reactivation. Once I was able to show a lift in the donor file from the lapsed donor expenditure, and create stability and predictability in our prospecting returns and retention, I gained credibility from my board and was given more autonomy. With carefully planned incremental testing, I was able to improve the cost to raise a dollar (CTRAD) of prospecting from $3.00 to between $1.30 and $1.60 for every dollar raised. And our break-even point for new donors shifted from 7 years out to making them profitable in about 2 to 3 years. Today, our prospecting response rates are between 2.25 percent and 2.5 percent, up from 1 percent when I started in 2005. Collectively, these improvements allowed senior management and the board to trust my ability to gain the most return from dollars invested in fundraising.

Q. Will you share some key takeaways with your fellow fundraising professionals?
A. Sure. I’m always happy to help.
1. Stay on your mailing schedule. Become a task master to it. Fifty percent (50%) of your revenue is directly related to properly spacing your mailings and meeting your drop dates.
2. Pay attention to inbound donor calls. A wise woman who ran our Donor Relations Department for over 30 years once told me that for every call you receive, either positive or negative, there are probably 100 more people out there thinking the same thing. That rule of thumb has served me well and is cheaper than a focus group. This is not to say that you change things because of one call, but if the calls point to a pattern, it’s time to take a closer look.
3. Reach out to your lapsed donors 1-3 times per year, regardless of the donation amount. We had a $5 donor who had not given since 2003. Recently, we were notified of a $1.5 million bequest on our behalf from that donor. Even though donors may fall into lapsed status, many of them still think of you as one of their charities.
4. Use premiums that provide value to your donors, help them in some way, and help keep your brand in their day-to-day lives.
5. Do not move all of your marketing dollars to email. Email is not a good substitution for direct mail. We use it as a complementary message to our mail packages, either to follow up with an appeal or to announce a new package.
Postal Events That Marketers Should Watch For in 2010

There will be no postage increase in 2010 for First Class Mail, Standard Mail, and periodicals! The first event in our 2010 list is a non-event. To allow marketers to plan effectively for 2010, the Postal Service announced recently that it will not increase rates in these important categories. There will be small increases for Express Mail, Priority Mail, and most packages.

Find out more about the postal events coming in 2010 on page 5.