A New Internal Management Tool for Nonprofits

ROI ANALYSIS*

By Category of Fund Raising Activity
And Average Gift Size Range**

* ROI = Return On Investment = funds raised as a percentage of fund raising expenses.

ROI Analysis is offered by Baruch College's Nonprofit Management Group as a methodology, *under development*, for evaluating fund raising return on investment. *ROI Analysis* has been developed by Bill Levis, Lilya Wagner and Anne New; by Nonprofit Management Group Advisors Jim Greenfield, Bruce Hopkins, Elaine Stueber, Russy Sumariwalla, and Conrad Sump; and with the assistance of a number of other interested professionals. The development of *ROI Analysis* is made possible in part by a Grant from Lilly Endowment Inc. Comments and suggestions regarding *ROI Analysis* are welcome.

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Part I: The *ROI Analysis* Spreadsheet (See Table 1)

A basic fund raising question has concerned nonprofit managers and fund raising professionals for quite some time. They often ask, "How can we know that the returns on our investments in various fund raising activities are reasonable?" Their boards also want to know if their fund raising ROI is reasonable, but a researched, standard methodology for answering this question has not been available.

The answers must be relevant to making day-to-day decisions about investing money to raise money. And, answers must *enable* rather than *inhibit* investments in fund raising budgets that will:

(a) maximize net contributions in the current year and

(b) build fund raising capacity this year to increase net contributions for future years.

Many fund raising professionals have attempted to quantify and explain the cost factors, with some degree of success. While such approaches vary, there are two consistent themes: bottom-line cost percentages alone are not a useful measure for internal management purposes and the performance of one kind of fund raising program cannot necessarily be evaluated against another.

ROI ANALYSIS

What is the answer to the question: "How can we know if the returns on our investments in various fund raising activities are reasonable?" The answer begins with "it depends." It depends on what type of fund raising activity is being considered, and it depends on the average gift size for that activity.

The *ROI Analysis* (Table 1) illustrates how an organization can develop a PC computer spreadsheet to compute its return on investments (ROIs) by up to ten categories of fund raising activity and compare its ROIs against minimum ROI criteria that are appropriate for each category and gift size. Definitions for each of the ten categories are provided in Table 6.

The *ROI Analysis* requires maintaining data on the three factors most nonprofits already track. These three factors are presented in Steps 1, 2, and 3.

Step 1: The total *investment* in fund raising (as might appear as "Fund raising expense" in a year-end financial report, or for some other more appropriate period) is broken down by as many as ten categories of fund raising activity. This is illustrated in column A of the *ROI Analysis: Fund Raising Investment.*

Step 2: The *number of gifts* (column B) for each category of fund raising activity is recorded in the *ROI Analysis.*

Step 3: The *amount of gifts* (column C) for each category of fund raising activity is recorded in the *ROI Analysis.*

The number and amount of gifts recorded in columns B and C will be the results of the fund raising activities related to specific fund raising investments entered in column A. Because fund raising revenues corresponding to specific investments often do not occur in the same fiscal year with the investments, the totals for columns A and C may not match figures for contributions and fund raising expenses found in year-end audited financial statements.

The *ROI Analysis* spreadsheet software automatically computes the two columns for *average gift size* and *ROI.*

The *ROI Analysis* requires that nonprofits establish minimum ROI criteria -- appropriate for their fund raising programs -- by categories of fund raising activity and average gift size range. Part II of this article, "Establishing Minimum ROI Criteria," provides an explanation of the two dimensions of criteria used, suggested minimum ROIs (Table 4), and a worksheet for developing minimum ROIs (Table 5). Minimum ROIs are needed for Step 4.

Step 4: The suggested minimum ROIs from Table 4, or the minimum ROIs established in the Worksheet Table 5 by the organization, are recorded in the *ROI Analysis* under column E: *Minimum ROI.* The minimum ROI selected for each category of fund raising activity is based on the gift size range corresponding to the average gift size computed by the *ROI Analysis.*

The *ROI Analysis* spreadsheet software automatically computes the *ROI Variance Above/(Below)* column by subtracting the *minimum ROI* (column E) from the nonprofit's actual *ROI* (column D).

Steps 5 & 6 =
Evaluation of Fund Raising ROI.

Step 5: A comprehensive written *ROI Analysis Report* accompanies the ROI Analysis spread sheet. The efficiency of each category of fund raising activity is discussed in some detail.

Step 6: When the ROI Variance for one or more specific categories of fund raising activity are below the minimum ROI, an explanation is also included outlining plans for improving performance in the future or possibly discontinuing the activity.

It would be useful to also maintain data on a fourth factor for each category: *Number of Solicitations.* The *ROI Analysis* could then be expanded to include this column and three more columns computed automatically by the spread sheet software. The three computed columns would be:

1. *Cost per Solicitation* (Fund Raising Investment divided by Number of Solicitations).

2. *Rate of Response* (Number of Gifts divided by Number of Solicitations).

3. *Cost per Gift* (Fund Raising Investment divided by Number of Gifts).

All four of these additional columns would provide nonprofits with important and useful information related to returns on their investments in fund raising activities. Many nonprofits already track the number of solicitations. If an organization adds this factor and the three related computations to its *ROI Analysis*, the additional data would be discussed in detail in the *ROI Analysis Report* prepared in Step 5.

Table 1

ROI ANALYSIS

Annual/ Periodic Fund Raising Return on Investment
By Category of Fund Raising Activity

ILLUSTRATION

					ROI ANALYSIS		
Category of Fund Raising Activity	**Fund Raising Investments**	**Number of Gifts**	**Amount of Gifts**	**Average Gift Size**	**ROI**	**Minimum ROI**	**ROI Variance Above/ (Below)**
	A	**B**	**C**	**C/B**	**D=C/A**	**F**	**D-F**
I. CAPACITY BUILDING (Not intended to produce NET income) 1. Non-income producing capacity building	120,000	N/A	N/A	N/A	N/A	N/A	N/A
2. Donor acquisition (List or constituency building	380,000	13,400	275,000	20.52	72.40%	70.00%	2.4%
3. Special Events-public relations (Marketing/PR programs)	43,000	450	24,000	53.33	55.8%	130.0 %	-74.2%
Total Capacity Building	543,000	13,850	299,000	21.59	55.1%	N/A	N/A
Fund Raising Costs %	181.6%						

II. NET INCOME PRODUCING 4. Donor renewal, soliciting prior donors under $1000	162,000	28,000	940,000	33.57	580.2%	300.0%	280.2%
5. Special events - fundraising	123,000	600	320,000	533	260.2%	200.0%	60.2%
6. Major individual gifts (soliciting prior donors, $100 & up)	320,000	2,230	1,87,000	839	584.4%	400.0%	184.4%
7. Planned giving/estate planning (After 4 to 7 years of losses!)	165,000	13	650,000	50,000	393.9%	500.0%	-106.1%(2)
8. Capital and endowment campaigns	195,000	125	1,780,000	14,240	912.8%	650.0%	262.8%
9. Corporate and foundation grant seeking	85,000	16	480,000	30,000	564.7%	650.0%	-85.3%(3)
10. Government grant seeking	15,000	2	100,000	50,000	666.7%	650.0%	16.7%
Total NET Income Producing	1,065,000	30,986	6,140,000	198	576.5%	N/A	NA
Fund Raising Cost %	17.3%						
Grandtotal	1,608,000	44,836	6,439,000	144	400.4%	N/A	N/A
Fund Raising Cost %	25.0%						

(1) Below minimum ROI, try to improve ROI, study cost benefit.

(2) Below minimum ROI, only in 3rd year, expected to improve.

(3) Below minimum ROI, try to improve ROI, study cost benefit.

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DOES ROI EVALUATION HAVE TO BE SO COMPLEX?

Unfortunately, complex questions require complex answers. On the surface, the basic question appears simple: "How can we know if the returns on our investments in various fund raising activities are reasonable?" However, there are many answers and they all depend on several variables.

The *ROI Analysis* has ten different categories of fund raising activity. Each one is different from all the others, depending on its purpose and/or source of funds, and for each one there is a different answer to the basic question of reasonableness.

Within each of the ten categories, reasonable fund raising efficiency also varies according to average gift size. The minimum ROI criteria (Tables 4 & 5) provide for six groups of average gift size ranges for each of the ten categories -- for a total of 60 separate efficiency factors.

Experienced fund raising managers know how to plan and implement very sophisticated or complex fund raising operations and programs. The sophistication (complexity) is increasing constantly. However, the way most nonprofits currently budget, account for, and evaluate fund raising costs and related income is not only uncomplicated but also unsophisticated and not very useful for decision-making.

The time has come for the nonprofit sector to take a more sophisticated and business-like approach to these aspects of fund raising management. While the need for community services is growing rapidly, government is cutting back and the burden of fund raising to meet community needs is falling more heavily on nonprofits.

Nonprofits that find it too burdensome to analyze the ROI of their fund raising programs could compare themselves to for-profit businesses. It would certainly be easier and less complex for businesses to only measure and evaluate their overall, year-end profitability. But for-profit organizations are usually far more successful when they measure the profitability of their various products and/or services separately and do so more often than once a year.

Decision-useful evaluations of fund raising activities require complex but accessible evaluation procedures broken down by categories of fund raising activity and gift size ranges. The methodology presented in this paper is the most useful procedure for management's evaluations of fund raising return on investment. True, they are complex, but they are not inaccessible to the conscientious fund raising professional.

Part II: Establishing Minimum ROI Criteria

The *ROI Analysis* (Table 1) requires that nonprofits establish minimum ROI criteria appropriate for their fund raising programs, by categories of fund raising activity and average gift size range. Part II provides an explanation of the two dimensions of criteria used, *suggested* minimum ROIs (Table 4), *worksheet* for developing minimum ROIs (Table 5), and definitions for the ten categories of fund raising activity (Table 6).

EVALUATE BY CATEGORIES OF FUND RAISING ACTIVITY

Certain fund raising activities should be evaluated separately from others because some are more cost efficient than others. Mixing the measures does not provide useful internal management information. Doing so can be misleading and result in wrong decisions on future fund raising budgets.

For example:

(a) *Above all else,* donor acquisition efforts are *always* less efficient than renewal efforts. They should be measured and evaluated separately from donor renewal activities.

(b) Evaluations of other capacity-building activities, such as public relations events that may be partially self-supporting, should not be combined with evaluations of special fund raising events that are expected to produce significant net results.

(c) Renewal of under $100 gifts by mail and phone should not be evaluated with one-on-one solicitation of annual gifts over $1,000.

(d) Annual giving, planned giving, and capital campaigns should each be evaluated separately.

(e) Evaluations of individual giving, corporate and foundation grants, and government grants should not be combined.

Therefore, relevant and useful management criteria for reasonable ROI should cover categories of fund raising activity that vary according to purpose and source of funds.

The ten categories of activity presented in Table 2 should be planned, invested in (budgeted), accounted for, and evaluated separately. These categories should be managed separately because of their distinctly different purposes, varied sources of funds, and/or performance characteristics. The ten categories have been identified based on discussions with Baruch College Nonprofit Management Group Advisors, comprehensive reviews of literature and studies covering reasonable costs by categories of fund raising activity (AICPA/1978, Greenfield/1988, 1991 1993, Hopkins/1991, Levis/1977, NSFRE/1977, NCDC/1982, Wagner/1992, and others -- see Notes at end of article).

Overall reasonable performance levels for six of the ten categories were researched and first published by Jim Greenfield in the NSFRE Journal, Autumn, 1988. Greenfield notes that at least three years are required to achieve these levels of performance. Greenfield's six categories have been expanded to ten categories in Table 2. The 1988 criteria are included in Table 2 along with suggested overall performance levels for each of the ten categories. The suggested levels are presented as fund raising cost percentages and as the reciprocal return on investment (ROI).

Table 2

Ten Categories of Fund Raising Activities

With Varying Level of Overall Performance

ROI = Funds raised as a percentage of fundraising expenses		**Suggested Overall Performance Levels**	
Category of Fund Raising Activity	**1988 Criteria: Cost per Dollar Raised (Not to Exceed) (1)**	**Cost as % of Funds Raised (Not to Exceed)**	**---OR--- Minimum Return on Investment (ROI)**
I. CAPACITY BUILDING (Not intended to produce NET income)			
1. Non-income producing capacity building	$1.50 (2)	N/A	N/A
2. Donor acquisition campaigns (List or constituency building)		150%	70%
3. Special events - public relations (Marketing/PR programs)		100% of Gross$	100% (Gross)
II. NET INCOME PRODUCING			
4. Donor renewal programs (soliciting prior donors, under	$0.20	25%	400%

$1,000)			
5. Special events - fund-raising	$0.50	50% of Gross $	200% (Gross)
6. Major individual gifts soliciting prior donors , $100 and up	$0.25	18%	550%
7. Planned giving/estate planning (After 4 to 7 years of losses!)		20%	500%
8. Capital and endowment campaigns	$0.10	18%	550%
9. Corporate and foundation grant seeking	$0.20	20%	500%
10. Government grant seeking		20%	500%

Note: It is assumed that costs include all joint costs of multi-purpose activities.

(1) "Fund Raising Costs and Credibility: What the Public Needs to Know," James Greenfield. It is noted that 3 years are required to achieve these levels of performance.

(2) Several professional fund raising consultants have indicated that they consider costs per dollar raised of $2.00 and in one case $3.00 acceptable.

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EVALUATE BY AVERAGE GIFT SIZE RANGE

Studies of actual gift size data indicate that fund raising cost percentage and return on investment also vary according to average gift size. For example, Forbes magazine gift size data for its 1992 top 100 national charities show that cost percentages do in fact vary according to average gift size (see "Median" column in Table 3).

The Forbes 100 charities spent $514 million on fund raising to obtain 70 million gifts and raise $3.36 Billion. Thus, the overall average gift size for the Forbes 100 charities was $47.44, and the overall average fund raising cost percentage was *15.3%*. The widely used 35% fund raising cost standard may be reasonable for raising $1 million by spending *up to* $350,000 to renew 20,000 gifts with an average gift size of *$50* (a likely national average based on the Forbes data). However, spending as *much* as $350,000 (35%) for renewing a single $1 million gift would not be reasonable. And, spending as *little* as $350,000 (35%) for raising 1 million one-dollar gifts may not be feasible.

Therefore, the suggested overall performance levels in Table 3 provide a sliding scale that varies according to average gift size and range from 500% ROI for average gift sizes over $10,000 to 200% ROI for average gift sizes under $25.

To calculate overall average gift size, an organization simply determines the total number of gifts it receives and divides this figure into total fund raising results. Each pledge is counted as a single gift, and subsequent pledge payments are not counted as separate gifts. Unlike financial data, number of gifts can be based on estimates. Accuracy within plus or minus 5% is more than adequate for applying the criteria for internal management purposes.

Table 3
Suggested Overall Performance Levels by Average Gift Size Range

	Fund Raising Cost Percentage		Minimum Return on Investment (ROI)
Gift Size Range	Actual (1) (Median)	Guideline (not to exceed)	
$10,000 &. up	*	15%	660%
1,000 to 10,000	9%	20%	500%
100 to 1,000	12%	30%	330%
25 to 100	25%	35%	300%
10 to 25	32%	50%	200%
1 to 10	*	50%	200%

* Sufficient data not available

(1) Average Gift Size Study, INDEPENDENT SECTOR, 1983; and Forbes 100 U.S. Charities, 1992

COMBINED: EVALUATE BY TEN CATEGORIES & SIX RANGES

A comprehensive evaluation methodology has been developed that combines the two primary dimensions nonprofits need to consider as they determine whether their ROIs are reasonable. The first dimension is the ten categories of fund raising activity from Table 2. The second dimension is the six average gift size ranges from Table 3.

Table 4 is two-dimensional and provides suggested minimums for return on investment by category of fund raising activity *and* average gift size range. The criteria presented in Table 4 remain unchanged from a November, 1992 draft that was circulated extensively for comment. Most of the respondents were comfortable with the criteria. However, there was not a full consensus of agreement with the specific ratios. Some respondents felt that the ratios would be too high for their organizations or clients. Others felt the ratios were too low for certain situations.

THE MINIMUM ROI WORKSHEET

Lacking unanimous support for the suggested ratios, a *worksheet* has been developed so nonprofits can establish minimum ROIs for use in their internal evaluations of fund raising performance (see Table 5). A nonprofit can use the suggested minimums in Table 4 or use the Table 4 criteria as a point of departure for developing its own criteria on the Table 5 *worksheet*. Once an organization has several years of data on its actual performance by categories and gift size ranges, it can consider making additional adjustments. It would also be useful if groups of like organizations could share fund raising performance data according to these categories and ranges.

The availability of ROI minimums make it possible for organizations to compare projected ROIs of fund raising budgets against ROI minimums during the budget approval process. They also enable comparison of actual ROI against ROI minimums at the end of each fund raising activity.

Table 4

MINIMUM FUND RAISING RETURN ON INVESTMENT (ROI)

By Category of Fund Raising Activity And Average Gift Size

SUGGESTED

ROI = funds raised as a percentage of fund raising expenses	ROI MINIMUMS BY AVERAGE GIFT SIZE RANGE(Average Gift Size= amount raised by a specific activity divided by the number of gifts						SUGGESTED OVERALL ROI MINIMUMS
Category of Fund Raising Activity	**$1- $10**	**$10 -$24**	**$25 - $100**	**$100- $1000**	**$1000 - $10,000**	**$10,000 & and up**	**by category of fund raising activity**
I. CAPACITY BUILDING (Not Intended to Produce Net Income)							
1. Non income producing capacity building	NA	NA	NA.	NA	NA	NA	NA
2. Donor Acquisition Programs (List or Constituency Building)	50%	70%	80%	100%	N/A	N/A	70%
3. Special Events- Public Relations (Marketing/PR Programs)	70%(Gross)	100% (Gross)	130% (Gross)	N/A	N/A	N/A	100%
II NET INCOME PRODUCING							
4. Donor renewal programs (soliciting prior donors, under $1000)	200%	200%	300%	400%	N/A	N/A	400%
5. Special events - fund raising	130% (Gross)	130% (Gross)	200% (Gross)	200% (Gross)	400% (Gross)	N/A	200% (Gross)
6. Major individual gifts	N/A	N/A	N/A	400%	550%	650%	550%
7. Planned giving/estate planning	N/A	N/A	N/A	400%	550%	650%	500%

(After 4 to 7 years of losses !)							
8. Capital and endowment campaigns	N/A	N/A	N/A	400%	500%	650%	550%
9. Corporate and Foundation grants seeking	N/A	N/A	N/A	400%	550%	650%	550%
10. Government Grant seeking	N/A	N/A	N/A	N/A	500%	650%	500%

Note: It is assumed that fund raising expenses include all joint costs of multipurpose activities

A. ROIs that exceed these minimums may indicate unreasonable levels of performance requiring an explanation to document why this experience occurred and what decisions can he drawn from it. The basic question is whether to continue the fund raising activity in its present design or to redesign it for better performance before it is used again.

B. For internal management purposes, it is not feasible to establish "bottom-line" ROI minimums when "bottom-line" measurements are a mix of various ROI percentages for several fund raising activities with minimum ROIs ranging from 50% to 650%, and that can also include investments in important capacity-building activities for the future that produce no current period income. It is recommended that the ROI of each fund raising activity be evaluated separately against ROI minimums that are relevant to that category of activity and its average gift size performance.

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Table5

Worksheet for Establishing Management Guidelines

Minimum Fund Raising Return On Investment (ROI)

By Category of Fund Raising Activity And Average Gift Size

WORKSHEET

ROI = funds raised as a percentage of funds raising expenses.	ROI MINIMUMS BY AVERAGE GIFT SIZE RANGE (Average gift size = amount raised by a specific activity divided by the number of gifts received)	SUGGESTED OVERALL ROI MINIMUMS

Category of Fund Raising Activity	$1- $10	$11 -$24	$25 - $100	$100 - $1000	$1000- $10,000	Above $ 10,000	by category of fund raising activity
I. CAPACITY BUILDING (Not Intended to Produce Net Income)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1. Non income producing capacity building	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2. Donor Acquisition Programs (List or Constituency Building)	______%	______%	______%	______%	N/A	N/A	______%
3. Special Events- Public Relations (Marketing/PR Programs)	______% (Gross)	______% (Gross)	______% (Gross)	N/A	N/A	N/A	______% (Gross)
II NET INCOME PRODUCING							
4. Donor renewal programs (soliciting prior donors, under $1000)	______%	______%	______%	______%	N/A	N/A	______%
5. Special events - fund raising	______% (Gross)	______% (Gross)	______% (Gross)	______% (Gross)	______% (Gross)	N/A	______% (Gross)
6. Major individual gifts	N/A	N/A	N/A	______%	______%	______%	______%
7. Planned giving/estate planning (After 4 to 7 years of losses !)	N/A	N/A	N/A	N/A	______%	______%	______%
8. Capital and endowment campaigns	N/A	N/A	N/A	400%	______%	______%	______%
9. Corporate and Foundation grants seeking	N/A	N/A	N/A	400%	______%	______%	______%

10. Government grant	N/A	N/A	N/A	N/A	______%	______%	______%

A. ROIs that exceed these minimums may indicate unreasonable levels of performance requiring an explanation to document why this experience occurred and what decisions can be drawn from it. The basic question is whether to continue the fund raising activity in its present design or to redesign it for better performance before it is used again.

B. For internal management purposes, it is not feasible to establish "bottom-line" ROI minimums when "bottom-line" measurements are a mix of various ROI percentages for several fund raising activities with minimum ROIs ranging from under ____% to over __ %, and that can also include investments in important capacity-building activities for the future that produce no current period income. It is recommended that the ROI of each fund raising activity be evaluated separately against ROI minimums that are relevant to that category of activity and its average gift size performance.

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OTHER FACTORS AFFECTING FUND RAISING ROI

Organizations can take a number of factors into consideration when they establish minimum ROI criteria for their fund raising programs. Besides categories of fund raising activity and average gift size, other factors influence fund raising ROI, both *temporarily* and *indefinitely*.

Temporarily influences include the following factors.

1. The *age* of an organization or length of time a fund raising activity has been in existence is an important factor. New organizations and organizations initiating new fund raising programs will invest a higher portion of their fund raising budget in capacity building. The *overall* minimum fund raising ROI percentages in Table 4 are most applicable for organizations with established fund raising programs that are three to five years old.

Therefore, while the specific minimum ROIs for various categories of fund raising activity and gift size ranges can be appropriate for new organizations and fund raising programs, *overall* "bottom-line" minimums may not be.

2. The *size* of the fund raising goal and the *size* of the expense budget for a particular activity are relevant. For example, the cost of planning and preparing for a $1 million campaign is almost the same as that for a $10 million campaign. This also applies to planning and preparing for a mailing of 10,000 appeals versus 100,000 appeals and to other categories of fund raising activity. Specific fund raising activities with low goals and budgets may have ROIs less than those suggested in minimum ROI Table 3 because the organization was unable to purchase small quantities of the necessary components at low prices. This will often be the case with start-up costs and costs of testing new fund raising ideas, which are essential investments in building fund raising capacity. However, a nonprofit's objective over time should be to increase the size of the goal and budget until its minimum ROIs can be achieved.

The ROIs found in Table 4 are on the low side in order to take the size factor into account. That is, the suggested minimums are most relevant to modest-size fund raising activities.

3. When goals are not achieved, return on investment can fall short of the ROI minimums.

The ROI of a fund raising activity can be within minimum ROIs based on the expense budget and projected results. However, no one can guarantee that the projected results will be achieved. As discussed in Note A,

Table 4, when the actual results fail to meet ROI minimums, steps should be taken to improve performance in the future.

It is important to note that nonprofits must take risks in order to increase their gift income.

The factor that affects ROI percentages *indefinitely* is the nature of the cause, which can have an enormous effect on a nonprofit's ability to raise money.

Is the cause or social concern well known or unknown? Is the organization itself well known? Over time, public education and public relations efforts can change this because a lack of public awareness can be a temporary factor.

Is the cause popular with most people or unimportant to many? For example, overseas relief programs are usually more popular than civil rights programs. Is there a stigma associated with the cause? For instance, there is a stigma attached to some diseases and not to others. These are examples of permanent conditions that most likely can not be improved over time.

While overall, "bottom-line" ROI minimums may be too high for unknown and unpopular nonprofits and their causes, the suggested ROI percentages by fund raising category and gift size found in Table 3 are still relevant.

Fund raising methods can *affect* ROI percentages. Different fund raising methods have different levels of reasonable fund raising performance. For example, direct mail is the least expensive method for soliciting prior or prospective donors on a unit-cost basis. While the cost-per-solicitation is lowest with direct mail, the average gift size is usually also lowest. The result is that direct mail ROIs are generally lower than those for one-on-one fund raising methods. But, direct mail is still the most efficient (i.e., the lowest unit cost per person solicited and per gift received) method for acquiring and renewing small-to-modest size gifts.

However, different purposes, sources of funds, and sizes of gifts require different methods of solicitation. Therefore, varying minimum ROI percentages by fund raising category and average gift size listed in Table 3 enable the professional to take fund raising methods into consideration.

ACCOUNTING CONSIDERATIONS

The suggested minimum ROI criteria in Table 3 assume that fund raising income and expense are calculated using the GAAP accounting guidelines that are followed by voluntary health and welfare organizations and are consistent with IRS Form 990 instructions. While accounting and financial reporting are based on a twelve-month fiscal year, the time periods for measurement of most fund raising activities will not coincide with a fiscal year. Some fund raising efforts are completed in a few months and can be repeated two or three times each year. Other activities will begin in one fiscal year and end in the next, and others are multi-year campaigns. Internal accounting systems must take these realities into consideration in order to be able to apply *ROI Analysis.*

ETHICAL CONSIDERATIONS

Who should establish minimum ROI criteria and use the *ROI Analysis* to determine if their fund raising ROIs are reasonable? The methodology is intended for use by all voluntary nonprofit organizations controlled and directed by unpaid, volunteer boards who want to avoid unethical fund raising costs and practices in pursuit of their missions.

Ethics enter into a determination of fund raising efficiency and effectiveness and of reasonable return on investments. For example, it is not unethical to acquire a donor's first gift through direct mail, at 100% or more fund raising cost. This has been the experience of many prestigious nonprofit organizations for decades and is necessary if nonprofits are to broaden their base of individual supporters.

However, it is unethical to do so if there is no follow-up through an adequate direct marketing donor renewal program soliciting second, third, and further gifts from that donor. Eventually, 70% to 90% of a direct marketing program's income should be renewal income at ROIs of at least 200% to 400% depending on average gift size (see Activity 4, Table 4). Established direct marketing fund raising programs that produce less than two thirds of their income through donor renewal are suspect. While direct mail fund raising programs do produce net income, their greater value to a non-profit organization is to provide a prior donor base from which major donors who produce major net income can be identified and solicited through appropriate methods.

Nonprofits that rely primarily on direct mail fund raising programs usually experience average gift sizes of under $100 and overall bottom-line fund raising ROI percentages of 200% to 400%. Conversely, nonprofits that are able to develop successful major donor solicitation programs usually enjoy higher average gift sizes (over $100) and overall "bottom-line" ROI percentages of 500% or better.

Therefore it's unwise, though probably not unethical, to fail to upgrade as many donors as possible from direct marketing programs to major donor solicitation programs such as major gifts and planned giving. With the most effective fund raising operations, 80% of net income is derived from the 10% to 20% of prior donors who are solicited through major donor solicitation programs for gifts of $100 or more.

SPECIAL MESSAGES

To CEOs:

1. Learn how to read and interpret a *ROI Analysis.*

This would be an important part of learning about fund raising if you have not had professional fund raising experience.

2. Ask your fund raising manager to include a *ROI Analysis* and a written *ROI Analysis* Report with his or her annual budget requests and end-of-year fund raising reports.

Preparation of an end-of-year *ROI Analysis* should not be burdensome for your fund raising manager. The fund raising department should already be tracking numbers of gifts and amounts of gifts by categories. The only additional record keeping would be to accounting for fund raising expenses by categories. With the help of your accounting department, this should not be too difficult. The simplest cost accounting techniques could be employed. Accuracy within plus or minus 10% would be adequate.

To nonprofit boards:

1. **ASK**

a. Does our fund raising department prepare, for its own internal use, a *ROI Analysis* and a written *ROI Analysis Report* when it prepares its annual budget requests and end-of-year fund raising reports?

b. Does our CEO review them?

c. Have they helped the fund raising department improve the efficiency and effectiveness of our fund raising activities?

d. Would it be useful, or too burden some or too threatening, for a *ROI Analysis* and a written *ROI Analysis Report* to be included with annual fund raising budget requests and end-of-year reports to the board?

2. Optional: Learn how to read, interpret, and ask questions about an *ROI Analysis*. This is optional because it is far more important to know that a *ROI Analysis* and a written *ROI Analysis Report* has been prepared by the fund raising manager and reviewed by the CEO.

Of course, it is also imprudent, if not unethical, to incur unreasonable costs or pay more than fair market value for fund raising staff or outside counsel, printed materials, prospect lists, computer or other outside services, etc., and other such program needs, regardless of the fund raising ROI percentage achieved.

Fund raising capacity-building investments-- especially investments in donor acquisition--are intended solely for the purpose of enhancing other fund raising activities that produce significant net income. It is unethical to invest in capacity building without also making commensurate, corresponding investments in net income-producing activities.

EFFICIENCY SHOULD NOT BE CONFUSED WITH EFFECTIVENESS

Use of the *ROI Analysis,* which addresses fund raising *efficiency,* should not distract nonprofits from emphasizing *effectiveness* -- maximizing net contributions.

The difference between fund-raising effectiveness and efficiency is well presented in the introduction to CASE/NACUBO guidelines, *"Expenditures in Fund Raising, Alumni Relations, and other Constituent (Public) Relations"* as follows:

> "Fund-raising efficiency should not be confused with fund-raising effectiveness. The objective of an institution's [fund-raising] program should not be to spend as little as possible each year to raise money, but to maximize the net. A program that annually produces $2 million at a cost of $160,000, or 8 percent, may look good and is indeed efficient, but one that produces $3 million at a cost of $300,000, or 10 percent, is presumably of more help to the institution [i.e., more *effective*] -- it is bringing in $860,000 more."

While the objective should be to "maximize the net," the CASE/NACUBO report says that "there are limits beyond which it is impolitic if not unethical to spend money to raise money."

Use of the *ROI Analysis* enables nonprofits to take such limits into consideration. At the same time, the *ROI Analysis* provides a methodology for performance analysis that also *enables* -- rather than inhibits -- investments in fund-raising budgets for maximizing net contributions during the current year, and investments necessary for building fund-raising capacity for maximizing net contributions in future years.

SUMMARY

Use of *ROI Analysis* makes it possible for organizations to compare projected ROIs of fund raising budgets against ROI minimums during the budget approval process. It also enables comparison of actual ROI against ROI minimums at the end of each fund raising activity.

The key is for each nonprofit to structure its fund raising budget, accounting, and reporting systems by the ten categories; to compute its ROIs by these categories; and to establish internal minimum ROI criteria by gift size range for internal comparisons, analysis, and evaluation.

SPECIAL MESSAGES

To fund raising managers and consultants:

1. As part of the justification for your annual budget requests and end-of-year fund raising reports, include a *ROI Analysis* and a written *ROI Analysis Report*

2. Teach your CEOs and at least some of your board members how to read, interpret, and ask questions about a *ROI Analysis.*

To CEOs, controllers, and accountants:

1. Learn how to read and interpret a *ROI Analysis.*

This would be an important part of learning about fund raising.

2. Provide technical assistance to your fund raising manager.

Many, if not most (if not all!!), fund raising managers lack the cost accounting skills needed to prepare the cost aspects of a *ROI Analysis.*

Follow the KISS principle. It would be more than adequate to employ the simplest cost accounting techniques with extensive use of allocation by formulas based on staff time distribution. Further, staff time distributions can be estimates with monthly verification by the staff involved and/or quarterly one-week daily time sheet verification.

To grantmakers that fund fund raising:

1. Learn how to read, interpret, and ask questions about an *ROI Analysis* submitted with a grant request for fund raising.

2. Ask that a *ROI Analysis* and a written *ROI Analysis Report* be included with fund raising grant requests.

3. Ask that a *ROI Analysis* and a written *ROI Analysis Report* be included with end-of-grant reports.

Reviewing these is optional because it is far more important to know that a *ROI Analysis* and a written *ROI Analysis Report* has been prepared by the fund raising manager and reviewed by the CEO and maybe by some board members.

Table 6
Definitions Of Categories Of Fund Raising Activity

	Separate management guidelines are applied for each of the following ten

	categories of fund raising activity because of their distinctly different purposes, varied sources of funds, and performance characteristics.
I. Capacity building Activities: (i.e., activities that are not **intended**to produce NET income)	
1. General capacity building (non-income producing)	Getting money to raise money, fund-raising assessments, board recruitment and development, mission development and goal setting, long-range strategic planning, fund-raising market research, establishing a planned giving program, feasibility studies, prospect research, special events that do not produce income, donor recognition and continued communications, setting up donor records and fund raising office systems, depreciation of office furniture and equipment used for fund-raising, start-up costs for fund raising activities 4 through 10 below, and similar support activities.
2. Donor acquisition (substantially self-supporting)	List or constituency building involves soliciting suspects and prospects for first-time gifts by mail, phone or door-to-door canvassing. These activities can be multi-purpose - e.g., combined with volunteer recruitment and public education.
3. Special events/public relations (substantially self-supporting)	Activities and events that raise money but are intended primarily for marketing. community relations, publicity and promotion, public education, cultivation. donor/volunteer recognition. and/or volunteer involvement purposes. This category doss not include special events that produce no income. It does not include special events designed to produce significant net income (see #5). Guidelines are based on gross receipts, and not on receipts net of any costs.
II. NET Income Producing Activities: (i.e., activities that are expected to produce NET contributions)	
4. Donor renewal of gifts under $1,000 (modest NET income producing)	Soliciting prior individual and business donors. usually for annual gifts at the small-to-modest-gift level, by mail, phone or personal visit (Soliciting prior donors that have lapsed for 4 or more years may need to be included in donor acquisition efforts.)
5. Special events--fund-raising (modest NET income producing)	Events intended primarily for fund raising and secondarily marketing, publicity and promotion. public education. donor and volunteer recognition. volunteer involvement, and other non-income producing goals (see #3). Guidelines are based on **gross** receipts. and not on receipts net of any costs.
6. Major individual gifts of $100 or more (major NET income producing)	Soliciting the top 20% of current donors, larger-gift individual and business donors that may give 50% or more of the ~ dollars raised through annual and special fund-raising efforts.
7. Planned giving & estate planning (alter 4 to 7 years of losses, major NET income	Soliciting charitable trusts, bequests, and similar gifts from individuals, usually $1,000 or more. Establishing a planned giving program is capacity building and may produce no income the first few years.

producing)	
8. Capital and endowment campaign pledges for (major NET restricted income producing	Soliciting major individual and institutional supporters for occasional multi-year gifts and special capital projects or endowment.
9. Corporate and foundation grant seeking (modest NET income producing, usually purpose restricted)	Soliciting grants from institutional sources such as corporations, corporate foundations and private foundations-usually $1,000 or more.
10. Government grant seeking (modest NET income producing, usually purpose restricted)	Soliciting **grants** from governmental agencies. Government grants are equivalent to contributions and do not include contracts and fees for providing program services (e.g., reimbursement) from governmental agencies.

Notes:

1. Bill Levis and Steve Smallwood with Bruce Hopkins, *Realities of Fund Raising Costs and Accountability,* Philanthropy Monthly, 1977;

Jim Greenfield, *Fund Raising Costs Credibility: What the Public Needs to Know,* NSFRE Journal, Autumn, 1988;

Jim Greenfield, **Fund Raising: Evaluating and Managing the Fund Development Process**, New York, John Wiley & Sons, 1991, p.46;

Jim Greenfield and John Dreves, "Fund Raising Assessment," Chapter 25 in **The Nonprofit Management Handbook: Operating Policies and Procedures,** Tracy Daniel Connors, Ed. New York, John Wiley & Sons, 1993, p.676; and

Lilya Wagner, **The Fund Raising School Manual,** 1992.

2. Bill Levis and Anne New, *Average Gift Size Study,* INDEPENDENT SECTOR, 1983; and Forbes 100 U.S. Charities, 1992.

3. Bruce Hopkins, **The Law of Fund Raising,** John Wiley & Sons, 1991.

4. AICPA, Statement of Position 78-10, Paragraph 94, 1978.

5. National Catholic Development Conference, *A Guide for Preparing a Statement of Accountability,* Appendix 4, Page 10, 1982.

6. *Standards of Accounting and Financial Reporting for Voluntary health and Welfare Organizations,* developed and sponsored by the National Health Council, National Assembly of Voluntary Social Welfare Organizations, and United Way of America. *IRS Form 990 instructions* for reporting fund raising income and expense are compatible with the "black book standards. The methodology developed by the Counsel for the Support and Advancement of Education (CASE) and National Association of College and University

Business Officials (NACUBO) for colleges and universities is similar to those of Form 990 and the "black book." The CASE/NACUBO methodology is included in their publication **Expenditures in Fund Raising, Alumni Relations, and other Constituent (Public) Relations.**

7. The national average fund raising percentage is estimated to be 15%: National Center for Charitable Statistics (13.8%), 1982 Average Gift Size Study, INDEPENDENT SECTOR (15.0%), 1983; CASE/NACUBO study (16%), 1990; and Forbes 100 U.S. Charities (15.3%), 1992. On this basis, estimated average return on investment would be 666%.

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