Make the Most of Your Fundraising…

with Simple Metrics

The amount of money your not-for-profit raises in fundraising campaigns is meaningful, but so is how efficiently you're able to raise it. Such costs can be measured using two metrics: Cost ratio and return on investment (ROI). Let's take a look.

Find a formula

These two metrics can be used to evaluate both fundraising activities as a whole and individual fundraising events or campaigns. Concentrating not only on the big picture, but also on specific fundraising activities, allows your organization to identify stronger strategies to use more frequently and weaker ones to consider improving or ending. Ultimately, the goal is to determine which activities generate the highest return.

Cost ratio (also known as cost-per-dollar, which is fundraising expense / fundraising revenue) focuses on the expense of fundraising, while ROI focuses on the returns. The formula for ROI uses the same inputs as cost ratio but flips them; the fundraising expense, of course, is the "investment" ROI is referring to:

ROI = Fundraising revenue / Investment in fundraising

Some nonprofits use gross revenues in the ROI formula. However, many others use net revenues (revenues minus the related expenses). Either option is acceptable, but you must be consistent and measure revenues the same way for every year and campaign. After all, these metrics are meaningful only when you compare fundraising activities or trends from one year to prior years.

Calculate inputs

Fundraising expense data should include the direct costs of the initial effort, as well as later activities. Initial costs might include an investment in online advertising or a phone campaign, while subsequent costs might relate to maintaining that relationship, such as a renewal mailing.

As for indirect and overhead costs, exclude those that you would incur with or without the monitored activity (such as website or donor database costs). And make sure they're excluded from every campaign metric. For both costs and revenues, use rolling averages that cover three to five years. This will reduce the effect of "one-offs," whether in the form of a significant donation or an economic downturn. You'll also avoid penalizing fundraising activities, such as a major gift campaign, that require some time to show results.

Allocate resources

Calculating fundraising metrics will help you make better decisions when it comes to allocating limited resources. But keep in mind that ROI can vary greatly by activity, and a lower ROI doesn't necessarily mean you should cut the activity. Contact us for more information.