Return on Investment. Not Just a For-Profit-Business Concept.

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In the for-profit world today, executives and analysts are often discussing a company's or project's return on investment or ROI. Indeed, for-profit entities are often judged by their ability to create sufficient ROI for their investors. Calculating ROI for a personal investment is as simple as calculating the ratio of payoff of an investment to cash or capital invested. For example, an investor who buys $1,000 of stock and sells it two years later for $2,000 nets a profit of $1,000, resulting in an ROI of 100 percent (the kind of ROI we would all love to see on our personal investments).

ROI does not have to be, nor should it be, limited to a for-profit concept. The idea of an ROI can be very valuable in project evaluation for not-for-profit organizations. Consideration of ROI will allow a not-for-profit to assess the impact of intended outcomes as compared to the required financial investment. It can help an organization operate more effectively and efficiently through improved utilization of staff and volunteer hours, expanded investor and donor pools and, ultimately, an improved bottom line to allow for expanded mission projects.

The ROI calculation brings expenses into the equation in an attempt to answer the question: "Was the project cost effective"?

ROI can be calculated whether the returns are financial or non-financial:

- **Financial Example** - Fundraising gala with gross revenue of $500,000 and expenses of $250,000 generates an ROI of 50 percent.

- **Non-Financial Example** - Blood donor need and education awareness activities costing $100,000 resulting in 500 new donors generates an ROI of 1 new donor per $200 invested.

Board members who are affiliated with businesses who use ROI methodologies in evaluation of success and profitability in these businesses often find specific benefit to the ROI concept applied to not-for-profit results. Corporate sponsors and donors like to know the value of their support and what was "purchased" in terms of social or public welfare improvement. Ultimately, what is the cost of what would happen if the not-for-profit was not in the community fulfilling its mission?

Where to begin…

1. **Develop an ROI plan.**

   Create a project portfolio which summarizes the major categories of project spending for the organization. For starters, consider focusing on projects that are new, involve big dollars, high visibility, or have an intuitive sense of low return.

2. **Consider return.**

   Determine whether any steps are being taken to isolate the project's return. Return is benefit, impact, outcome, proceeds or gain. Some projects have a very clear and measurable return with a link to mission and financial goals (i.e. - a 5K race to generate profits for use in a mission project). Other projects focus on returns which are not as tangible, such as quality improvement or awareness and understanding (i.e. – creation and distribution of an educational pamphlet to generate awareness for your cause). Also be certain to consider what funds would have been raised even if the organization did not conduct the project under evaluation (e.g. - to isolate the impact of a new online advertising campaign for an event, revenue from registrants who participated in the event in prior years should be excluded from gross revenue results when calculating return).

3. **Consider total cost.**

   Develop a plan to capture all project costs necessary. Costs should include all direct costs, an employee cost estimate for man-hours spent on the project and an overhead allocation.

4. **Calculate ROI.**

   $$\text{ROI} = \frac{\text{Return}}{\text{Total Cost}}$$

   An ROI of 50 percent means the costs were recovered and an additional 50 percent of the costs were also realized in benefit (or 'profit').

With well-defined business alignment and goals, an organization can be more strategic in making resource allocation decisions. Two proposed projects with the same mission purpose can be evaluated side by side to assess which is more cost effective to achieve the intended result.

Communicating the expected ROI on all projects will not directly answer the question of whether to invest in more research, advocacy, information or fundraising. That assessment will generally continue to be based on the organization's strategic plan and a collective agreement as to the areas that are most in need of funding. However, in making that decision, the ROI framework will assist staff and volunteers to better communicate the potential impact of those funding decisions.

About the Author

Kristen Jones has ten years of experience in public accounting, having joined DHG in 2006. During this time, she has gained both audit and tax experience in a variety of industries, specializing in nonprofit organizations. Kristen has managed the audit and tax engagements for a number of nonprofit entities, including regional foundations and nationally recognized museums. In addition, she has assisted in developing and teaching numerous workshops and continuing education courses for DHG.

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