Measuring Fundraising Return on Investment and the Impact of Prospect Research:

Factors to Consider

May 2010

A WealthEngine White Paper

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Overview

Understanding Return on Investment (ROI) is critical to a nonprofit organization's long term strategic planning—regardless of their size, age, mission or the constituents they serve. With today's tight economy and the increased pressure on nonprofits to improve every facet of their fundraising operation in terms of productivity, efficiency and value, organizations must be cognizant of the relationship between their investment in fundraising and the return on that investment. Having a command of ROI-related metrics helps to inform decision-making in strategic planning, budgeting, staffing and other key operational areas.

Prospect research is an important element in the fundraising operation of nonprofits of all sizes and types, providing the foundation for successful identification, cultivation, solicitation, and stewardship strategies. Prospect research, when performed effectively and supported by a development office that implements targeted fundraising programs, enables organizations to raise more money in the long run.

As development offices, board members, donors and volunteers all look to have greater transparency into the costs and outcomes of fundraising, measuring the return on investment for each individual fundraising activity is critical. Moreover, when factoring in prospect research, it serves as a key indicator for assessing the impact the function can have on the overall effectiveness of the organization's fundraising efforts. This information is especially important to board members, Chief Financial Officers (CFOs) and others who have a say in how the fundraising budget is set. It also allows the nonprofit to potentially increase their prospect research budget by providing the proof positive that prospect research is an investment that yields positive results. Therefore, it has never been more important for the development office to understand the impact prospect research has on its fundraising ROI and its cost to raise a dollar (CRD).

This white paper will explore various factors to consider when measuring the ROI of fundraising for the nonprofit organization, and specifically the ROI when systematically deploying prospect research. As part of the discussion of ROI and the benefits and costs of prospect research in lowering the cost of a dollar raised, we present three WealthEngine client case studies that demonstrate the use of prospect research and its ROI in the context of various fundraising campaigns.

Measuring ROI can help nonprofits justify their prospect research and development investments. And perhaps even more importantly, it can help maximize the efficiency of these efforts by providing the benchmark for understanding the overall cost of raising money.

The Fundraising Landscape

The nonprofit sector represents a significant part of the overall U.S. economy, constituting more than 5% of Gross Domestic Product (GDP) in 2008 and employs an estimated 10% of the U.S. workforce, according to a recent report to Congress prepared by the Congressional Research Service.[1]

As of July 2009, there were more than 1.5 million nonprofits registered with the Internal Revenue Service—of which 71% are 501(c)(3) organizations. This group includes roughly 986,000 public charities and nearly 116,000 private foundations. The 52% of public charities required to file Form 990 with the IRS reported $1.4 trillion in revenue and $2.6 trillion in assets as of July 2009. It is important to note that hospitals and higher education organizations, which together consist of only 1.4% of filing organizations, have the highest percentage of revenue (41% and 11%, respectively) and total assets (29% and 21%, respectively).

Charitable organizations have four primary sources of revenue:

- Private payments—such as education tuition, fees for medical care or fees for other goods and services
- Private charitable contributions—including those from individuals (outright and deferred), corporations, foundations and bequests
- Government grants and payments
- Income from investments

The percentage of revenue from each source varies widely across various sectors, with education, healthcare (including hospitals) and human services related charities relying more heavily on private payments.[2] Healthcare and human services related charities generally receive higher percentages of their revenue from government grants, while educational institutions have greater investment income—driven largely by the higher education endowments.

All sources of revenue, of course, have been negatively impacted by the recent economic downturn. The financial blow to college and university endowments in the wake of the economic downturn has been widely covered by the media, while private charitable contributions across the board have also been significantly impacted. In 2008, total charitable giving was approximately $308 billion, a decline of 2% (5.7% when adjusted for inflation) from 2007.[3] Of this amount, 75% was attributable to individual giving. While complete data for 2009 is not yet available, the Association of Fundraising Professionals (AFP) released data showing that giving continued to decrease in 2009, though not as significantly as it did in 2008. However, results from the later part of the year and holiday season in particular show that "Slowly—very slowly—but surely, giving is coming back."[4] As Paulette Maehara, President and CEO of AFP states, "Based on our data, it looks as if we've gone through the worst and are seeing the light at the end of the tunnel. We are cautiously optimistic that by the end of 2010, giving and fundraising will have improved."

> "Financial markets rise and fall and varying economic cycles will be forever changing the landscape of fundraising. Those organizations committed to and invested in systematic prospect research are likely to outperform in good times and still fair well during poor economic cycles because they are constantly building and refreshing their prospect pipelines."
>
> **—Tony Glowacki, WealthEngine Chief Executive Officer**

Moreover, several industry surveys have shown that those organizations that invest in fundraising—even in the midst of difficult economic times—are likely to see the benefit. "We are seeing that those who continue to invest in fundraising are better positioned than those who stop altogether," says Maehara. While the economy has still not fully recovered, it is showing signs of improvement, which could aid charitable giving. The Chronicle of Philanthropy's Quarterly Fundraising Index showed a slight increase in Q4 2009 the second increase in a row, since its low point in Q2 2009.[5] The Index looks at Gross Domestic Product, personal income, the S&P 500 stock index value and the national unemployment rate. As these factors improve, charitable giving is expected to improve as well. Those organizations that have invested and continue to invest in fundraising should be well placed to reap the benefits of their investment.

The Development Office

Organization Structure

The size of a nonprofit's development organization—and the cost required to operate it—depends on a number of factors, including the size of the overall organization, the scope of its fundraising initiatives and its overall budget. Successful development organizations are generally staffed in a balance with their overall fundraising goal. Understaffing may lead to missed targets, while overstaffing can take a bite out of fundraising proceeds—money needed for programming and/or to support the organization's mission.

Nonprofit organizations should take into account several realities of fundraising when setting fundraising targets and staffing to meet them. As outlined in the March 2007 presentation, "Best Practices in Prospect Management", by consulting firm Marts & Lundy to the Association of Fundraising Professionals (AFP), major gift fundraising requires:

- 18-24 months from initial contact to securing a major gift
- 7-8 contacts per prospect (averaging one per quarter)
- 3-4 prospects per major gift secured[6]

In addition, Marts & Lundy found that firms typically receive 75-85% of their "ask" and, contrary to the standard 80/20 rule, roughly 90% of campaign gifts come from 10% of donors.

When planning staffing for fundraising campaigns, most nonprofit organizations take into account the number of prospects a development officer can reasonably manage. Most consultants and industry veterans recommend a prospect portfolio of between 75 and 150 prospects per major gift officer—depending on the ask amount, geography, other job responsibilities and the major gift officer's (MGO) skill and experience level.

As prospects make gifts or choose not to, the MGOs portfolio must be resupplied from a pool of new prospects, a responsibility typically managed through the prospect research function. Prospect researchers evaluate the overall pool of prospective donors and pass those that meet appropriate criteria to the MGOs for cultivation. A ratio of 4-5 MGO's per Prospect Researcher is considered by many to be appropriate. However, depending on the organization's fundraising goals, the research tools available to the research staff and level of screening efficiency, higher or lower ratios may be workable.

> Determining the appropriate staffing level ultimately depends on the nonprofit organization's overall fundraising goal, the amount desired from each type of fundraising effort (e.g. major gifts, annual fund, memberships, etc.), the desired number of donors at each giving level required, and the timeline to achieve the goal.

Example: Major Gifts Campaign

The following provides a hypothetical scenario of a campaign pyramid and staffing plan for a major gifts campaign. In this example, the campaign is designed to run for 2-3 years with a goal to raise $100 million. The chart provides a breakdown of the number of gifts needed at several giving levels above the major gift level of $50,000, as well as the number of prospects required to achieve the goal. In this example, we assume that the prospect to donor ratio is 4:1 and we assume that each Major Gift Officer (MGO) will carry a portfolio of 100 prospects. As prospects become donors or decline to donate, they will drop out of an MGO's portfolio and new prospects will be added, so that the overall portfolio size remains fairly constant. We also assume a ratio of 4 major gift officers per prospect researcher.

Fundraising Goal: $100 million
Major Gift Level: $50,000
Prospects needed with gift levels over $50,000: 1672

Campaign Giving Target Plan:

Gift Level	# Needed	# Prospects Needed	Level Subtotal	Cumulative Subtotal	Cumulative Percentage
$10,000,000	1	4	$ 10,000,000	$ 10,000,000	10%
$5,000,000	2	8	$ 10,000,000	$ 20,000,000	20%
$2,500,000	5	20	$ 12,500,000	$ 32,500,000	33%
$1,000,000	10	40	$ 10,000,000	$ 42,500,000	43%
$500,000	50	200	$ 25,000,000	$ 67,500,000	68%
$100,000	100	400	$ 10,000,000	$ 77,500,000	78%
$50,000	250	1000	$ 12,500,000	$ 90,000,000	90%
Under $50,000	Many	Many	$ 10,000,000	$100,000,000	100%

Staffing Plan:
MGOs needed: 8 to 9 (each MGO will carry a portfolio of 100, which will be resupplied)
Prospect Researchers needed: 2

Development Staff Expenses

From the other side of the ROI coin, the cost side, the organization should take into account salary, benefits and travel costs. These human resource costs generally are the largest portion of the fundraising or development budget. The Association of Fundraising Professionals (AFP) published a comprehensive salary survey in January 2009, which is intended to capture overall salary and benefits data, including health/medical, retirement and general perquisites or "perks" for U.S. and Canadian nonprofits. Their findings show that the mean (average) salary for all respondents is $71,199 and the median (middle value) salary is $63,500. The top 25% of the pay scale equates to more than $85,000, while the bottom 25% is $47,500 or less. Factors that influence salary levels include, but are not limited to, years of experience, education, CFRE or other certification and location. Fundraisers working in national and international organizations reported average salaries higher than those affiliated with local or state/regional entities. There were also strong positive correlations between average compensation and the size of an organization's staff, its budget, and the amount of funds raised.[7]

In another survey, the Association for Healthcare Philanthropy (AHP) in 2008 examined salary levels in the United States for 16 career categories within the field of healthcare philanthropy. The results shows that median annual pay ranges from $42,000 to $200,000 for all major job descriptions, and for those positions that are directly tied to fundraising, the median salary ranged from $46,650 for a donor relations coordinator to $115,900 for the Executive Director of the development office. Pay-influencing factors measured by the survey include respondents' age, gender, education level, professional designations (e.g., CFRE, FAHP), region of the U.S. where they work, and type of healthcare institution employing them (e.g., academic, community, children's hospital, etc.). Other issues that were examined that can impact salary include the number of years respondents have been employed in healthcare fundraising and in their current position, the number of full time-equivalent staff in their development office, and the number of people they supervise.[8]

Annual Salary by Job Description – U.S. Association for Healthcare Philanthropy

US $	Salary as of July 1, 2008					% Change 2007-2008
	Number of Respondents	Mean	First Quartile 25%	Median 50%	Third Quartile 75%	Median
Executive Director	596	126,182	83,000	115,900	160,000	4.5%
Director of Development	326	87,204	66,713	83,000	102,000	4.7%
Development Officer	125	66,502	48,690	58,000	70,807	3.8%
Annual Giving Officer	86	55,401	43,920	52,500	63,500	5.0%
Major Gifts Officer	188	83,350	65,000	79,000	95,000	4.0%
Planned Giving Officer	46	87,084	64,125	85,000	109,000	4.2%
Grant Writer	41	63,567	51,639	62,000	74,900	3.9%
Administrative Assistant	11	40,308	36,400	42,000	45,000	7.0%
Campaign Officer	15	84,795	55,000	84,000	110,000	3.7%
Special Events Officer	42	52,211	42,000	49,500	59,418	4.6%
Database Manager	32	51,566	38,375	49,000	61,150	4.7%
Donor Relations Coordinator	24	48,465	38,938	46,650	56,500	5.3%
Vice President	52	177,484	137,025	160,000	199,875	5.3%
Director	58	103,546	80,750	99,938	121,000	4.5%
President/CEO	17	202,153	135,000	200,000	266,900	5.4%
Other	77	70,192	47,000	60,000	81,611	4.0%

Source: *2008 AHP Salary Report*, Association for Healthcare Philanthropy, 2008

Other Direct Expenses

In addition to the staffing component, organizations also incur a variety of direct expenses to support their development efforts. These can include accounting and budgeting software, donor management systems and other fundraising software, including research tools and prospect screening. It is important to account for and accurately attribute these expenses, as well as other direct expenses incurred for proposal generation, special events, direct mail and other campaign-related costs. In many cases, reasonable approximations and/or percentage allocations will suffice.

Appendix 1, Table 3 provides a summary of some of the typical categories of expenses incurred by development departments. This table is an example of a report that can be generated to calculate return on investment, as well as cost per dollar raised, for individual fundraising programs as well as for the overall fundraising function. Figures are for example only, and do not represent benchmarks or ideals against which organizations should measure their results.

Investing in Fundraising and the Fundraising Strategy

Finally, when looking at the cost structure for the development office, organizations should take into consideration the fact that some of the staffing, resources and other expenditures that are used in fundraising are also utilized in general administrative and overhead activities, and vice versa. For example, in most organizations, especially smaller and mid-sized nonprofits, people do wear multiple hats and individuals in program-related positions may also spend time performing fundraising duties. Similarly, the time spent by executives and senior management to meet with prospects and cultivate relationships, which often includes travel, should also be considered as part of the overall fundraising expense.

Just as organizations can vary in the structure and size of their fundraising infrastructure, so can they vary in their fundraising strategy. For example, activities related to acquiring new donors can differ from those related to donor retention and renewal. William Levis outlined this in his paper, "Increasing

Giving By Investing More Money In Fundraising—Wisely", which was originally published in *The Philanthropic Monthly* (1990).[9] In this paper he recommends that separate investment decisions, and separate ROI tracking, should be made for the various types of activities related to fundraising, including:

- *Capacity-building*, which includes operating expenses related to assessing an organization's capacity to raise money, strategic planning, board recruitment and development, marketing, setting up donor management systems and fundraising systems
- *New donor acquisition* efforts, such as direct mail, where nonprofits identify and target donors that make small-to-medium size gifts
- *Individual donor renewal*, or fundraising activity that produces net contributions from the second, third, and subsequent gifts from prior individual donors. Donor renewal focuses on retention and upgrading of prior donors. It includes major gifts, annual gifts, special gifts, capital gifts and gifts for endowment
- *Individual planned giving*, in which donors are asked to make deferred, non-cash or life-income gifts
- *Grantseeking* from institutional sources such as corporations and foundations

Furthermore, different fundraising techniques have different associated costs per dollar raised. For example, if you are raising a large percentage of major gifts, then your average cost per dollar raised may be lower than an organization that is focused on raising money through its annual fund. Research done by James Greenfield, a well-respected leader in fundraising and the retired Senior Vice President of Resource Development at Hoag Memorial Hospital Presbyterian in Newport Beach, California, shows average costs to raise a dollar at anywhere from $.05 to $1.00 per dollar raised, depending on the fundraising activity or method, with a national average of $.20 per dollar raised.[10]

As Greenfield points out, "Organizations have a variety of fundraising methods and techniques, each with its own budget and with its own separate levels of performance effectiveness and efficiency. Each method should be measured against the results it achieved, and most importantly it should be measured against prior years' performance using the same method." Greenfield recommends that the results be assessed for at least three cumulative years in order to get a complete and accurate picture.[11]

Reasonable Cost Guidelines for Solicitation Activities[12]

Solicitation Activity	Reasonable Cost Guidelines
Direct mail (acquisition)	$1.25 to $1.50 per $1.00 raised
Direct mail (renewal)	$0.20 to $0.25 per $1.00 raised
Membership associations	$0.20 to $0.30 per $1.00 raised
Activities, benefits and special events	$0.50 per $1.00 raised (gross revenue and direct costs only)*
Donor clubs and support group organizations	$0.20 to $0.30 per $1.00 raised
Volunteer-led personal solicitation	$0.10 to $0.20 per $1.00 raised
Corporations	$0.20 per $1.00 raised
Foundations	$0.20 per $1.00 raised
Special Projects	$0.10 to $0.20 per $1.00 raised
Capital Campaigns	$0.10 to $0.20 per $1.00 raised
Planned giving	$0.20 to $0.30 per $1.00 raised

*To calculate bottom-line total costs and net proceeds from a benefit event, calculate and add the indirect and overhead support expenses to direct costs incurred and subtract from gross revenue.

Source: Greenfield, James. "Accountability and Budgeting, Assessing Costs, Results and Outcomes." In Hank Rosso, *Achieving Excellence in Fundraising*, New York: Wiley, 2003. Originally published by James M. Greenfield, ed. *Fundraising Cost Effectiveness: A Self Assessment Workbook*, 1996, p.281. Reproduced with permission of John Wiley & Sons, Inc.

The Nonprofit Fundraising and Administrative Cost Project[13] reports that as a standard, nonprofits should spend no more than 25 to 50% of contributions on fundraising. The average across all industry sectors is to spend less than 35% of contributions on fundraising.[14] This means that a charity is expected to spend no more than $0.35 to raise each dollar. However, the majority of charities spend far less than this amount—between $0.15 and $0.24 per dollar raised—as demonstrated below.

Average Amount Spent to Raise $1 in Contributions, by Subsector

Source: Center on Nonprofits and Philanthropy, Urban Institute and Center on Philanthropy, Indiana University, *The Pros and Cons of Financial Efficiency Standards, Nonprofit Overhead Cost Project*, Brief No. 5, August 2004. (http://nccsdataweb.urban.org/kbfiles/521/brief%205.pdf)

Current research into the economics of charitable fundraising indicates that investment in development and fundraising not only improves the annual rate of growth of giving, but can also help the nonprofit improve the overall effectiveness and efficiency of their organization. "Organizations need to stop apologizing for their fundraising costs, and need to look at them in context with what they are doing and what they are achieving, and determine if they are using their funds appropriately to become stewards," says Paulette Maehara, President and CEO of the Association of Fundraising Professionals.

The *Nonprofit Fundraising and Administrative Cost Project* report cites that, "Arbitrarily limiting a nonprofit in how much it can spend to raise its needed operating revenues is counterproductive and unfair. After all, organizations have different mixes of fixed and variable costs, so different nonprofits will have different points at which they are most efficient." Finding the balance in an organization's costs vs. returns, and understanding the value of fundraising efficiency and effectiveness is a real and attainable goal. The challenge of balancing efficiency and effectiveness is discussed in more detail later in this paper, where we present the factors that influence ROI and CRD.

Achieving maximum *effectiveness* is defined as maximizing net revenues, versus achieving maximum *efficiency*, which is defined as keeping expenses as low as possible.

Prospect Research: An Expense or an Investment?

Prospect research provides the foundation from which all other fundraising efforts are developed. By leveraging systematic prospect research to better build, segment and target qualified pools of donors, nonprofit organizations can maximize efficiencies in their fundraising. Nevertheless, some nonprofits don't recognize the value that prospect research brings to the table. They may look at the cost of research and staffing resources as simply a capacity-building expense, and not as an investment that can drive a higher rate of return. "It is important to look at prospect research as part of the fundraising infrastructure and not as a separate cost center. It does impact revenue, and should be considered when looking at the overall cost to raise money," says Maehara.

William C. McGinly, President & CEO, Association of Healthcare Philanthropy affirms this, stating that, "Prospect research is what you've got to do to be effective and efficient. The effectiveness will help increase returns and the efficiency will save time and keep you focused."

The bottom line: By helping you effectively reach out to the right donors at the right time with the right ask amount, prospect research is an investment that yields positive results.

The effective and systematic application of prospect research can help nonprofits:

- Identify new prospects with wealth, disposable income and an inclination to give
- Segment and prioritize existing donors and prospects for major gifts, planned giving, direct mail & special events
- Validate ask amounts to maximize overall gift potential
- Equip development officers with valuable "conversation starters" and critical information on hard assets, philanthropic and personal interests, company information, political giving, as well as corporate and social networks
- Provide opportunities to meaningfully engage board members, trustees, volunteers and other stakeholders in the fundraising process

Investing in Prospect Research

In addition to the staffing component, the development expenses related to prospect research can include a range of data and analytics, such as individual and batch screening, online data mining, peer screening and modeling and analytical tools, as described below.

Prospect Research Tool	Description	Average Cost
Batch screening	Batch screenings provide wealth identification, philanthropic and demographic information on lists of donor and/or prospect records. These screenings can encompass hundreds, thousands or even hundreds-of-thousands of records that are screened across multiple public data sources. The screened results can also have predictive modeling and analytic tools built into the results, which are posted online, via a database that functions as a stand-alone resource, or integrated into a donor management system.	Typical batch screening costs are between $2,500 to $25,000, although costs can range from $500 to hundreds of thousands of dollars, depending on the number of records, which data sources are used, level of detail, extent of analysis and overall sophistication of the screening tool.
Online data mining	Online tools that provide data on individual donors, corporations and foundations, gathered from one specific public data source or a wide range of data sources that are then compiled into easy to read profiles. Data typically includes hard asset information like real estate, income and pension, stock ownership as well as philanthropic and biographical data.	Annual subscription costs range from $500 - $10,000, depending on the type of service. Stand alone data sources cost less, while data providers with multiple sources and features cost more.
Peer screening	Individual or group-based review of prospect lists for assessment of wealth, inclination and capacity to give. These individuals or groups might include board members, key volunteers, staff or major gift donors. Verbal review of the list uncovers relationships, biographical details, as well as speculation on a prospect's gift capacity.	There are minimal to no costs for peer screening, other than wealth screening and/or staff time applied to compiling the list.
Modeling and analytic tools	Includes custom modeling to address an organization's specific fundraising objectives. The organizations' prospect lists are analyzed against the model and scores are assigned to determine how closely a prospect's attributes match those of the model in order to identify the best prospects and their propensity to give.	Like screening costs, outsourced data modeling can range from thousands to tens of thousands of dollars. Costs will depend on the number of records reviewed and scored, the number of models developed, the cleanliness of the data set, and the sophistication of the analytic method. There may be additional costs for wealth or demographic data appends if needed or desired.
Newspaper/ magazines, hard copy and online data manuals	Includes a variety of free and fee-based data sources, most of which are subscription based. A summary of the most commonly used sources is provided in Appendix 2.	Fees range from free to hundreds or thousands of dollars for a subscription.

Measuring Return on Investment

To measure Return on Investment (ROI), the total investment in fundraising, or fundraising expense, is analyzed against the net revenues generated from fundraising. But ROI is not the only important metric. A similar metric is Cost to Raise a Dollar (CRD), which is the mathematical inverse of ROI and a figure that many nonprofits believe is equally important. In looking at these figures, organizations can better understand the value of their fundraising activities and determine how the costs to carry out one activity compare to the costs to carry out another activity. "Measuring ROI is important, and it is a long term process," says Maehara, "It enables you to be more efficient in your fundraising operations."

$$\text{Return On Investment (ROI)} = \frac{\text{Net Revenue}}{\text{Expense of investment}}$$

$$\text{Cost to Raise a Dollar (CRD)} = \frac{\text{Expense of investment}}{\text{Net Revenue}}$$

Sample worksheets for measuring fundraising return on investment, as well as worksheets for measuring the returns from prospect research, may be found in Appendix 1. These worksheets were designed to help evaluate the success of an organization's prospect research and screening efforts and determine how the investment in prospect research has impacted the organization's fundraising programs. They should be considered as a template for individual organizations to use to establish their own ROI benchmarks and to evaluate their fundraising performance.

For example, the format used in Table 2 for Major Gifts can be used as a template for evaluating the results of any type of giving campaign. Depending on the components of your fundraising program, you may want to measure your results in planned giving, annual fund leadership solicitations and other fundraising activities.

Measuring ROI and CRD enable the nonprofit to determine what mix of fundraising investments, done at this stage in their fundraising strategy, gives the organization the best return over time.

Finally, we include a template for calculating ROI for Fundraising Operations, which includes the expenses and revenues for the overall fundraising effort as well as specifically for major gifts, annual giving, planned giving and corporate and foundation gifts.

Who wants to know about ROI and CRD?

WealthEngine research shows that calculating and understanding ROI and CRD is important not only for the development office, but is a topic of increasing interest among donors, volunteers, agency executives, CFOs, national watchdog groups and associations. Transparency is critical to the cost side of the equation while return serves as a benchmark for success.

Special Considerations for Planned Giving

ROI metrics for planned giving should be considered separately from other gift types. The related costs for planned gifts can occur many years before the income is received. In fact, the average time from inception to maturity for a planned gift is 7-10 years. Therefore, looking at its ROI in the context of the year in which the gift is initially committed gives an incomplete measurement.

Furthermore, charitable organizations have different guidelines in accounting for planned gifts, determining the charitable tax deduction for planned gifts, and counting planned gifts for capital campaign reporting. For example, IRS charitable deduction calculations were not created for the purpose of counting planned gifts and, while valid for tax purposes, do not offer a way of counting planned gifts that recognizes the total campaign and development effort.[16] In many cases, these various yet accepted methods for accounting, counting, and determining the charitable deduction do not effectively capture the value of planned gifts.

The Partnership for Philanthropic Planning (formerly NCPG) offers *Guidelines for Counting Charitable Gifts* as well as *Valuation Standards for Charitable Planned Gifts* to help nonprofits understand the value of a planned gift in terms of its present purchasing power. Utilizing these standards to measure the value of a planned gift—and calculating ROI accordingly—enables the organization to better understand the costs and benefits of planned gift fundraising and determine the overall effectiveness of their investment in planned giving.

Calculating Net Revenues

Net Revenue is simply the sum of cash gifts and commitments, minus the amount spent on fundraising. For gift commitments and the various types of deferred gifts, organizations may use different methodologies to account for gift expectancies. One useful example is the *Guidelines for Counting Charitable Gifts* developed by the Partnership for Philanthropic Planning (formerly National Committee on Planned Giving or NCPG). These guidelines recommend that organizations set three separate and complementary goals, and report on their fundraising results separately, for (1) gifts received during the campaign period, (2) irrevocable deferred gifts and (3) revocable gifts. It offers a new paradigm for structuring and measuring results of both annual and multi-year campaigns, and for counting and reporting gifts within those campaigns.[15]

Utilizing these guidelines and measuring ROI separately for the three different types of gifts enables organizations to differentiate between new commitments and commitments from previous campaigns that have changed in character. This puts organizations in a position to show how different development activities can affect the financial state (both present and future) of the institution without appearing to count the same gift twice. This is especially important in the case of deferred gifts, where it may be years before a gift commitment is fully realized.

Factors Affecting ROI and CRD

Determining a reasonable range for the rate of return per dollar invested on the overall fundraising effort can depend on a multitude of factors. First, it is important to distinguish between those activities and expenses related to *individual giving* and those that involve *overall fundraising*, such as grants and public funding. When it comes to individual giving, an acceptable ROI or CRD can depend on factors such as the nonprofit organization's history, age, size, constituent profile, programs, funding structure, local demographics , local economics, staffing and fundraising history.

Additionally, organizations are not the same in how they conduct fundraising nor does fundraising perform the same for all organizations. As a result, comparative performance data from other organizations must be used with caution. While they can be used as benchmarks or guidelines, organizations will be best served to set their own benchmarks and performance criteria.

A case in point is St. Vincent's Foundation in Birmingham, Alabama, which was looking to measure the success of their annual direct mail campaign after investing in prospect screening. By calculating the acquisition rates and cost to raise a dollar prior to performing screening, they were able to establish a baseline that they could then measure against after they utilized screening. This enabled the Foundation to better understand the impact of prospect research on the ROI of their campaign, as demonstrated in the following table.

Example: St. Vincent's Foundation Annual Fund—Direct Mail Campaign

Date	Acquisition Rate	Cost to Raise a Dollar
Fall 2007 (pre- screening)	0.8%	$1.18
Spring 2008 (pre- screening)	0.65%	$1.51
Fall 2008 (first use of screening)	1.5%	$0.80
Spring 2009	0.8%	$1.05
Fall 2009	0.9%	$0.50

James Greenfield affirms this approach, stating that "Organizations should do their own performance analysis, and to really understand what these metrics mean, they need to look at their data as a benchmark and compare results against at least three previous years."

Balancing Efficiency and Effectiveness

ROI may also vary depending on the organization's efforts towards achieving maximum net revenues, or *effectiveness*, versus maximum *efficiency*, or keeping fundraising expenses as low as possible. Determining what is a desirable ROI or CRD for an organization will vary depending on the organization's unique goals for maximizing revenue and minimizing expenses, and determining the sweet spot where effectiveness and efficiency are achieved.

This issue is outlined by Michael Gerrity of Philanthropy Associates, Inc., in his paper, "Return on Investment in Fundraising: Using ROI to Your Advantage"[17], where he provides the following example:

"Would the CEO of the not-for-profit prefer his fundraising office to generate $3 million and spending $600,000 for a $0.20 per $1.00 raised ratio, or would he/she prefer it generate $4 million at the cost of $1 million, for a $0.25 per $1.00 raised ratio? The ratio of 4 to 1 does not look as good as 5 to 1. But on the other hand, the net income at 4 to 1 is $3 million; while at a cost ratio of 5 to 1 net income is $2.4 million. Most not-for-profit CEOs, while still asking if we could do better, will forget the ratio if it means having $3 million to spend on a mission versus $2.4 million."

It is important for organizations to look at their ROI as a benchmark that is specific to their unique organization and that is tied to their overall strategic plan and fundraising strategy. As Maehara points out, "Finding the sweet spot between efficiency and effectiveness takes ongoing communication between the staff, board and leadership." Development professionals, CFOs and board members should use this information to determine what mix of fundraising investments, done at this stage in their fundraising strategy, gives the organization the best return over time.

Factors Affecting Return on Investment & Cost to Raise a Dollar

- Type of organization (universities versus community organizations, etc.)
- Primary and current fundraising targets (government funding, individual giving, corporate and foundation grants, etc.)
- Size and wealth of the target donor audience
- Number of new prospects found
- Number of existing donors found to have greater capacity
- Size, nature and overall income levels of the local economy
- Age and history of the organization
- Age and history of the fundraising program
- Number and type of fundraising staff employed
- Experience and longevity of the fundraising staff
- Extent and focus of the fundraising strategy (both the number and types of engagements for direct mail, special events, annual fund, grants, major gifts, planned/ deferred gifts, etc.)

ROI and CRD metrics are more meaningful when looked at in conjunction with factors such as average donor cycles and cultivation time. For example, first year expenses may be higher, but as the fundraising program matures, the cost to raise a dollar tends to taper. Likewise, returns are typically higher in the early stages of a major giving campaign, and in fact most fundraising professionals have found that the greatest contributions are made during the silent phase before the campaign even reaches the public domain. It is typical for 60% or more to be raised before the campaign goes public. As a result, ROI and CRD should be evaluated over a three, five and ten year timeframe for each individual fundraising activity and for all combined. By looking at ROI in this way, the organization can balance the issues of efficiency and effectiveness.

Prospect Research in Practice: The ROI Impact of Prospect Screening

Organizations that use prospect research and screening tools are able to identify new prospects, build positive relationships with potential donors, and to a lesser extent upgrade or downgrade previously identified (known) prospects. WealthEngine's 2009 report, *Best Practices for Prospect Research in Higher Education Fundraising*, provides an analysis of fundraising among high performing organizations within the education sector, and includes the following metrics on the results of screening.

	Range of Records	Average
Size of screening	600-190,000	36,548
Number of new prospects identified	0*-114,000	6,464
Number of prospects upgraded	0-5,000	646
Number of prospects downgraded	0-5,000	683
Number of prospects visited by personnel	0-2,500	224
Number of major gifts closed	0-200	20.3
Cultivation time	0-84 months	19 months

** Zeros may have been reported because the screening was recent and prospects had not yet been segmented and identified, or because respondents did not have all the data requested.*

The data showed that on average, 1 of every 10 prospects identified in the screening that reaches the face-to-face stage of cultivation, results in a closed gift. This is summarized in the following table which calculates a return on investment for three screening sizes (36,000 is the average screening size in our survey). The calculations are based on the averages from the survey data.

Number of records screened	12,000	36,000	165,000
Average cost of screening ($.20 per record)	$2,400	$7,200	$33,000
Average # new prospects identified (17% of total)	2,040	6,120	28,050
Average # visited by personnel (19% of identified)	388	1, 163	5,330
Number of closed gifts (10% of visited)	39	116	533
Average $ raised (# of closed x average min major gift amount*)	$969,000	$2,907,000	$13,323,750
Average ROI (average raised less cost of screening) 40,275%	$966,600	$2,899,800	$13,290,750

**$25,000 is the most frequently cited minimum major gift amount*

In this scenario, a screening of 36,000 records, costing approximately $7,200, would yield approximately 6,120 new prospects. If only 19% are eventually visited by personnel, and only 10% of those eventually make a gift of at least $25,000, then the screening would be directly responsible for the receipt of $2,899,800 in new gift revenue. Based on the average cultivation time, much of this revenue would be realized in 1-2 years. This represents a return on investment of over 400 times!

Prospect Research in Practice: Northwestern University and the Impact of Donor Cultivation on ROI

Strategic segmentation and prospect research can yield significant ROI for a variety of fundraising programs. One example is Northwestern University, which has established a routine screening schedule to systematically identify and segment prospects, along with a thorough process for qualifying and verifying leads. They began alumni and parent screenings in 2004, conducting annual screenings of specific segments of their prospect pool. Rather than screening the entire prospect pool every five years (which could encompass about 112,000 records), they screen reunion class alumni each year (17,000 to 20,000 records annually), to ensure that all alumni records are refreshed on a five-year basis.

2003
112,000 living alumni

2004-Present
1,600-2,000 new parents of students

2004
31,000 "found" alumni with newly located addresses

2004
14,400 unvalidated prospects from the 2003 screening rescreened through new vendor

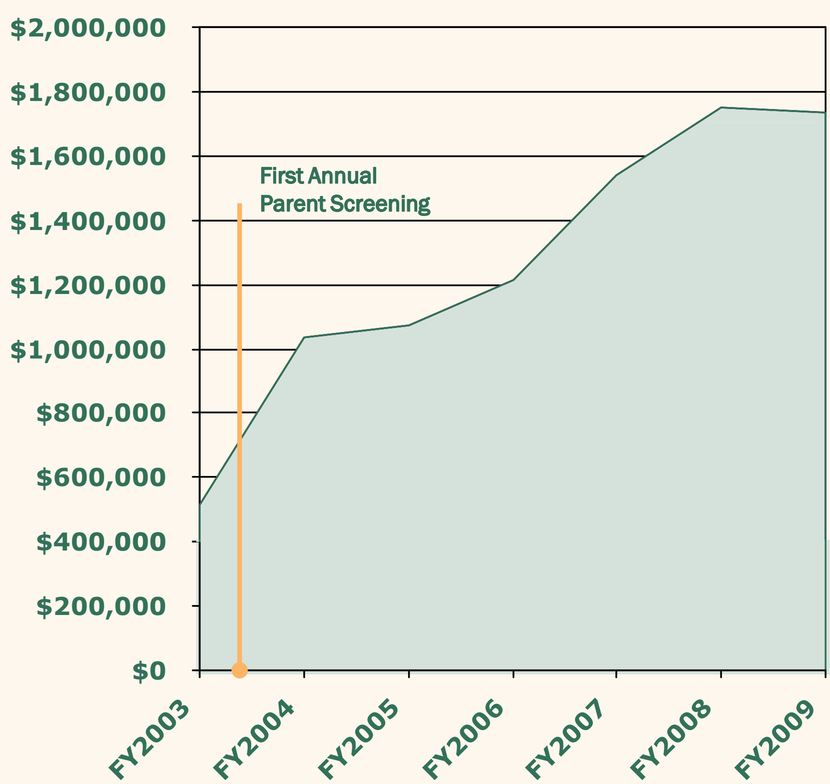
2005-Present
Reunion year alumni

2007-Present
18,000 grateful patients initially screened for the medical school has led to monthly screenings of new grateful patients as they come through the school's partner medical group

2009
7,000 unqualified prospects who had previously been assigned to development officers without a research capacity evaluation rating

Since 2005, Northwestern's Reunions program has used reunion class screenings as part of a comprehensive class-focused strategy, growing reunion gift totals by 453%, as well as increasing the number of reunion donors by 42% and achieving a 29% increase in participation.

In addition, they conduct non-alumni parent screenings (1,600 to 2,000 records per year) in order to get an earlier start on cultivating the relationship. Prior to the first parent screening in 2004, the Parents' Fund raised approximately $500,000 annually. Within the first year of screening, the Fund doubled. By 2008, the Fund had grown to $1.75M and, despite tight economic times in 2009, the Fund held steady, closing within 1.2% of the previous year's total. "Our return on investment is clear when you consider how we used screenings to double our Parents' Fund within a year and more than triple it within four years," explains Jennifer Fry, Director of Development Research and Prospect Management at Northwestern University.



The Challenges of Accounting for Overhead Expenses

Why is measuring Return on Investment such a tricky matter for some organizations? Because measuring ROI requires an organization to have a clear structure for tracking and reporting their fundraising costs. Fundraising costs, including prospect research, are a key component of the organization's operating expenses. While these overhead expenses must be reported in the nonprofit's IRS Form 990, there are a number of issues that affect the reliability of these figures. Accounting for overhead expenses is a topic that has been under much scrutiny and debate within the nonprofit industry, and a summary of how it can affect a nonprofit's ability to determine their fundraising ROI is provided below.

In addition to facing accounting-related challenges, nonprofits have historically faced pressure from their funding sources (government agencies, individuals, and foundations) as well as external watchdog organizations to keep a tight rein on overhead expenses. The Better Business Bureau's Wise Giving Alliance provides standards for charity accountability and produces reports on nationally soliciting charitable organizations. Included in their recommendation is a guideline that organizations spend no more than 35% of <u>related</u> contributions on fundraising. Related contributions include donations, legacies, and other gifts received as a result of fundraising efforts. However, while most organizations keep well within this guideline, their research found that over half of adult Americans felt that nonprofit organizations should have overhead rates of 20% or less; nearly four in five felt that overhead should be less than 30%.[18] For nonprofits, overhead rates and similar measurements of efficiency—e.g. how many cents of the dollar go towards programs and how many towards salaries and administration—are as important as earnings reports are to companies. Part of the pressure to keep the efficiency percentages high comes from grant organizations and donors, who want to know that their dollars are making a difference.

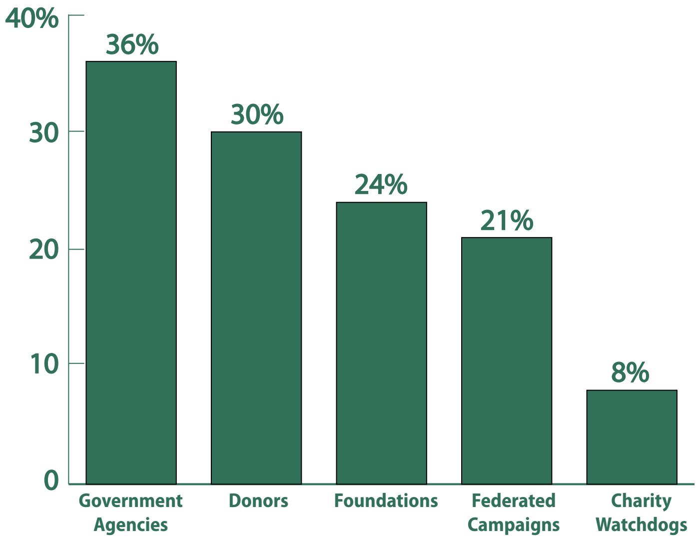
While watchdogs, regulators, and donors may have altruistic concerns when evaluating charities and encouraging them to limit their costs, this can create excessive pressure that may hamper the charities ability to deliver upon their mission. The Bridgespan Group has done further analysis on the topic and noted that while nonprofits report pressure from a variety of sources, research shows that the most direct pressure comes from the organization's funding sources (government agencies, individuals, and foundations) and external watchdog organizations.[19]

Accounting Issues that Can Impact ROI

Accounting for overhead expenses is a topic of much interest and debate in the nonprofit community. The following are some of the key issues that many nonprofits face:

- Lack of a universal accounting standard for nonprofits. There are three major bodies that issue standards for nonprofit organization financial accounting, which regulators typically rely on for determining if a nonprofit is conducting its finances responsibly. They are the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA), and the U.S. Federal Office of Management and Budget (OMB). In addition, several other organizations have developed guidelines for financial accounting operations. The various standards and guidelines each address the issue of fundraising expenses in a different way. Examples include the National Health Council's *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*, the United Way of America's *Accounting and Financial Reporting: A Guide for United Ways and Not-for-Profit Human-Service Organizations*, as well as the Council for the Advancement and Support of Education (CASE), which has published a set of definitions and procedures for reporting the results of fundraising activities by educational institutions.
- Variations in the ways in which fundraising vs. administrative expenses should be separated. While all accounting standards require that organizations distinguish between expenses related to program services, fundraising, and operations, the exact definitions for each of these categories can vary.
- Conflicting ideas about where fundraising expenses should be charged. Many nonprofits place their fundraising expenses under a centralized fundraising entity, while others, such as institutions of higher education, adopt a decentralized model, whereby expenses are allocated to the specific group within the overall organization that would handle the fundraising event or campaign (and that would reap its benefits). For example, some educational institutions allocate expenses to the individual colleges within the university that benefit from the particular fundraising activity.

Sources of pressure to limit overhead, fundraising or administrative expenses



Source: Taken from Bedsworth, Gregory and Howard, *Nonprofit Overhead Costs: Breaking the Vicious Cycle of Misleading Reporting, Unrealistic Expectations, and Pressure to Conform*, 2008 and originally published by Kennard Wing and Mark Hager, "Who Feels Pressure to Contain Overhead Costs?," Center on Nonprofits and Philanthropy at the Urban institute, 2004.

The expectation for keeping overhead costs to a minimum has caused industry-wide inconsistencies in the way in which overhead expenses, and specifically fundraising expenses, are accounted for. In fact, the *Nonprofit Fundraising and Administrative Cost Project* uncovered widespread variations in how overhead expenses are reported, and startling, high numbers of zero-fundraising costs that are being reported.[20]

The fact that there are so many variables in a nonprofits' fundraising cost structure, coupled with the notion that some nonprofits have made excessive efforts to control costs, makes the case for measuring ROI and CRD for fundraising all the more compelling.

Impact of Prospect Research on Fundraising Return on Investment

Prospect research provides the foundation to effectively carry out virtually any fundraising program—effective prospect research delivers a pipeline of highly qualified, prioritized and segmented prospects and donors. Programs that include major gifts, planned giving, campaign components or an annual fund must include some amount of prospect research in order to efficiently focus resources on those donors or prospects that are most likely to have the greatest impact with a single gift or with increasingly higher gifts over time. Here are some important considerations when evaluating the impact prospect research has on fundraising ROI:

Think Beyond the $

While monetary returns provide the true measurement of ROI, when evaluating the value of prospect research, nonprofits should also consider factors such as the *number* and the *dollar amount of gifts*, as well as metrics such as *total numbers of donors, number of new donors acquired annually, number of donors increasing their gift, percentage of new prospects converting to donors and at what gift level*. These measures of performance ultimately play into the ROI equation.

WealthEngine's research[21] shows that investment in a prospect research and screening solution significantly increases both the *size* and *quality* of the prospect pipeline. The benefits of having a more comprehensive and accurate target prospect list, and the ability to apply analytics to further segment and classify the prospect pipeline, enables institutions to more effectively and efficiently target their strongest prospects and donors. This obviously results in a higher percentage of closed gifts.

A case in point is St. John's College High School in Washington, DC. Philip Brach, Vice President for Institutional Advancement, cites the importance of looking at metrics and analytics to identify trends and gift potential. Brach uses three key metrics to determine a prospect's inclination to give and an ask amount: (1) his own RFM score which is based on the Recency, Frequency and Monetary value of previous gifts, (2) the WealthEngine gift capacity rating, and (3) the prospect's real estate valuation. This approach has resulted in a total of 150 major gifts ($25,000 or more) for the school's leadership campaign, of which 97 were first-time capital gifts totaling $2.7M and 53 were repeat capital campaign gifts totaling $5.4M, nearly 60% of which are higher amounts.

Similarly, a response to a direct mail appeal does not always equal a closed gift, but higher response rates usually lead to higher giving amounts, and an effective prospect research process can help nonprofit organizations achieve both through better segmentation and qualification of their target donor audience. Having a clean, targeted prospect list can also help save additional resources in direct mail materials and mailing expenses.

Consider How the Data is Used

Another consideration when determining the impact prospect research has on ROI and CRD is the way in which it is used to raise funds within various types of programs. When conducting batch screenings, data can be segmented and used for multiple fundraising activities. Consequently, the use of prospect research will impact the ROI of each fundraising activity you are performing. The following table provides typical scenarios in which prospect research is used, and how it can impact ROI:

Activity	Prospect Research Use	Potential Impact on ROI
Soliciting Smaller Gifts	Identify, prioritize and segment large masses of donors and prospects for various campaigns, at specific gift levels such as with an annual fund	Reduce overall campaign costs by better targeting solicitations
Cultivating Major Gifts or Planned Gifts	Identify prospects with the greatest gift capacity and propensity to give, resulting in targeting fewer donors, but at higher gift levels	Increase returns by setting more appropriate, and potentially higher, ask amounts
Constituent Review	Routine evaluation of service recipients, such as patients, student parents/alumni, membership subscribers or ticket holders, etc. Regular screenings identify new prospects that are already connected to the organization, which are analyzed and distributed to the various fundraising programs (annual fund, major gifts, planned giving, etc.) according to their propensity to give and giving capacity	Increase participation rates and yield higher returns by having a consistent prospect pipeline, segmented for action

Recognize that Timing is Everything

Development offices and nonprofit boards should not underestimate the importance of factoring in cultivation time and the average donor cycle when evaluating ROI and CRD. Tracking prospect research expenses and measuring ROI and CRD are easier when conducting a fundraising event or direct mail solicitation. In these cases, the time period from generating and verifying a target list to executing the campaign is relatively short, ranging from a few weeks to a few months and the ROI equation is typically quite linear.

On the other hand, major gifts and planned gifts require relationship-building, and many larger donations come from years of cultivation, so they may not be clearly evident in the ROI model. When determining ROI and CRD, the costs for prospect research are calculated in the year they are incurred, but the benefits or return are not accounted for until they actually come in the door. As a result, development offices should consider their average donor cycles and measure ROI first on a yearly basis, and also look to establish three, five and even ten year averages to avoid the highs and lows associated with large capital campaigns.

One example of this structured approach to cultivating relationships among donors and measuring its ROI is St. Vincent's Foundation in Birmingham, Alabama. Following a $23M capital campaign, St. Vincent's applied a combination of weekly grateful patient screenings and a comprehensive moves management program in order to retain campaign donors and to reach out to new prospects. The result is remarkable; pre-campaign gift levels averaged $2M per year, and post-campaign gift levels average 50-100% higher, per year. Furthermore, when they evaluated the average number of gifts made at both the $1,000 and $10,000 level during the three years *prior* to their capital campaign and compared them to the average gifts made in the three years *following* the campaign, they found a 62% increase in $10,000 gifts.

Houston Grand Opera

Using Prospect Research as the Foundation of Fundraising Increases Contributions by 82% in Three Years

When the Houston Grand Opera's season commences this fall with a new production of Madame Butterfly, Larissa Potiomkin will have her prospect pipeline stocked and ready for its own debut. As Manager of Development Information at the Houston Grand Opera, she is a jack of all development trades; performing prospect research, managing the prospect pipeline and soliciting annual gifts. For Potiomkin, it all comes down to the basics, "prospect research data provides direction on whom to target and at what gift level. It's as simple as that."

Investing in Change

Houston Grand Opera brought in a new General Director and Senior Development Director in 2006 after several years of declining membership. This change in leadership also led to a renewed focus on boosting membership and using prospect research for the foundation of a major gift solicitation program. Development staff identified donors and subscribers from the previous two years and screened 16,000 records through WealthEngine. The results were promising: 1,000 individuals from the screening were identified as having a gift capacity of $100,000 or higher.

Benefits of a Strong Board

The Opera then went to work, first using the data to restructure their board while leveraging wealth attributes to create a strong center of influence and giving capacity. The strategy paid off.

- After implementation of the WealthEngine screening and board level cultivation, giving increased by 44.2% in FY 2008 over giving in FY 2007
- The trend continues, in FY 2009, giving at the board level rose 44.3% over FY 2008

Targeting Subscribers

The Opera also instituted annual screenings to ensure a well-stocked pipeline at the start of each season. In July, Potiomkin screens 400-600 new subscribers so development staff can begin cultivation. Potiomkin explains, "Through the screenings, we can strategize on whom to target before the October season begins. It's our starting point, allowing us to take advantage of critical timing. We're really fortunate to have major gift donors and prospects in our 'home' regularly for performances so we capitalize on the timing to steward them more efficiently and effectively."

The cultivation involves special touches such as backstage tours and dinners, access to the green room, and other targeted non-donor and donor events before performances. Potiomkin uses the screening results to identify gift capacity ratings for current donors and to pinpoint prospects worthy of added research. As well, Potiomkin also uses WealthEngine's FindWealth Online to research key prospects to uncover multiple property ownership, community involvement and the Opera's trustees' "Circle of Friends" so they can expand and leverage known connections.

> "When you look at the growth in the total dollars raised, increase in the size of major gifts from donors and steady rise in renewal rates from donors over the past three years since we implemented prospect research, there is an obvious positive return on investment. We've realized a 30-fold return on investment from prospect research, which may sound like a staggering number, but so is our 82% increase in overall contributions. Both are great achievements."
>
> —Larissa Potiomkin,
> Manager of Development Information

Results

Since the Opera began wealth screening three years ago, major gift donors have given at higher levels and overall contributions have grown by 82%. As well, their database has doubled in size to over 200,000 records through various methods of prospecting. Potiomkin estimated 2009 prospect research costs (excluding salaries) at 1% of 2009 contributions and said the Opera's costs had been consistent since 2007 when they first implemented prospect research and screening. Using this cost estimate, the below table demonstrates Houston Grand Opera's ROI from prospect research after their implementation in FY 2007.

"When you compare that to direct mail, web maintenance and design, special events and other fundraising costs, prospect research is a small investment that yields greater returns and one that we've seen contribute to our fundraising growth," adds Potiomkin. "Overall, our ROI from prospect research these past three years is 2,766%. It may seem like an incredible number, but it's one that shows the power of prospect research and the true potential that exists when coupled with a well-functioning, aggressive fundraising program."

Year	Annual Contributions	Increase in Contributions	Estimated Annual Prospect Research Costs*	Increase from Prospect Research**	Annual ROI from Prospect Research***
FY 2006	$8,418,127	Prior to use of prospect research and screening	Unknown—prior to use of coordinated strategy	–	–
FY 2007	$7,846,305	7% decrease—screening program initiated and prospect research begins to be applied	$142,000	Implementation period	–
FY 2008	$13,637,273	74% increase	$142,000	$5,788,968	1,938%
FY 2009	$14,270,120	5% increase—a real success given the economic climate	$142,000	$6,421,815	4,422%
3 Year Total	**$35,753,698**	**82%**	**$426,000**	**$12,210,783**	**2,766%**

Note: Working with Houston Grand Opera, WealthEngine calculated their approximate return on investment from prospect research, starting with 2007 contribution levels as a baseline and assuming non-prospect research costs remained constant.

** 2009 prospect research costs based on Houston Grand Opera's estimate of 1% of 2009 contributions. 2007 and 2008 costs are also based on this estimate as cost has remained relatively consistent over the FY2007–2009 period. Actual costs for FY2007–2009 are not available.*

*** Annual contributions – baseline of FY 2007 annual contributions, when prospect research was first implemented.*

**** Increase from prospect research – prospect research costs (FY 2008 accounts for 2 years of costs as program gained momentum)/prospect research costs.*

St. Vincent's Foundation

Structured Approach, Dramatic Results

Scott Powell, Director of Development at St. Vincent's Foundation in Birmingham, Alabama wishes he had a dedicated team of prospect researchers to support the Foundation's development efforts. Instead, Powell explains, "everyone does prospect research to some degree" with success coming from a structured approach combining weekly grateful patient screenings, a comprehensive moves management program and careful examination of return on investment (ROI).

Following a $23M capital campaign, St. Vincent's applied the structured approach to retain campaign donors and to reach out to new prospects through their grateful patient program. The result is remarkable; pre-campaign gift levels averaged $2M per year, post-campaign gift levels average 50-100% higher, per year. How did they do it? "It comes down to two possibilities," says Powell. "We've either done a good job at retaining donors or our prospect research and moves management programs are highly successful. The reality is that both are true."

Further examining the success of St. Vincent's efforts, Powell took the average number of gifts made at both the $1,000 and $10,000 level made during the three years prior to their capital campaign and compared them to the average number of gifts made in the three years following the campaign.

Gift Size	$1000	$10,000
Average Annual # in Three Years Prior to Campaign	147	37
Average Annual # in Three Years Following Campaign	184	60
% Increase	25%	62%

With a 62% increase in $10,000 gifts, the strategy is working. Says Powell, "Using prospect research to identify and target top prospects, employing open communication through moves management and applying aggressive retention tactics are now a way of life for us. It's what we do, what we rely on and part of our standard process."

Weekly Grateful Patients' Screenings

In 2008, St. Vincent's started screening approx. 3,500-4,000 patients on a weekly basis through WealthEngine's WebExpress, a swift and systematic prospect screening tool for routine batches of donors and prospects. St. Vincent's screened more than 182,000 individuals in 2009; predominately patients but also smaller groups of memorial gift donors, board members and donors to the capital campaign. The weekly screening combines patient lists from four care sites with a total of 800 beds. The lists are uploaded to WealthEngine every Friday, at midmorning, with the results returned by noon that same day. "Our strategy is to not waste any time—or opportunity. Today, almost all of our gifts come from our grateful patient program and every donor is screened before a gift is ever made."

"Using prospect research to identify and target top prospects, employing open communication through moves management and applying aggressive retention tactics are now a way of life for us. It's what we do, what we rely on and part of our standard process."

—Scott Powell, Director of Development

Powell takes the results and uses WealthEngine's P2G™ score, a reliable metric that indicates a prospect's Propensity to Give, to prioritize and segment the list for various development efforts. Each week, Powell takes the top 50 prospects as identified by WealthEngine and shares the list with development officers during their routine prospect meeting. Any matches determined to be incorrect are removed with the top 50 profiles added to a master list shared with the board of directors every few months for peer screening purposes.

Direct Mail Success

The weekly list is further segmented by the P2G score, all of those identified by WealthEngine as qualified prospects are sent to the annual fund. Any below that threshold are culled from the mailing list. St. Vincent's first began mailing to the list after collecting two months of prospects. However, due to the success of the program, they have accelerated their program to mail to new lists every two weeks.

"After we started screening with WealthEngine, we looked at the acquisition rate of the mailing and the cost to raise a dollar," says Powell. "The results show three important findings. First, that by mailing to those identified by WealthEngine to be our best prospects, we have seen a higher response rate. Second, our cost to raise a dollar has gone down significantly because we no longer waste expense in mailing to individuals who are unlikely to give. Finally, our spring mailings traditionally have a lower acquisition rate, however, they are now at levels consistent with our best rates from our more successful fall pre-screening mailings."

Date	Acquisition Rate	Cost to Raise a Dollar
Fall 2007 (pre-WealthEngine screening)	0.8%	$1.18
Spring 2008 (pre-WealthEngine screening)	0.65%	$1.51
Fall 2008 (first use of screening)	1.5%	$0.80
Spring 2009	0.8%	$1.05
Fall 2009	0.9%	$0.50

Screening prior to a mailing helps to cut mailing costs and better target the appropriate audience. For example, two donors responded to a grateful patient mailing with a $100-150 first time gift. These gifts were high enough to raise attention and warrant more thorough research through FindWealth Online, where wealth and high gift capacity was confirmed in each case. Explains Powell, "In the first case, we noticed the individual had an affiliation to similar health-related organizations; critical information that helped with an ask that resulted in a $10,000 gift. In the second case, we identified the donor's Circle of Friends and found a connection to one of our board members. We then secured a $15,000 gift."

Streamlined Structure

"The value of regular screening and proactive prospect research is the constant influx of new, qualified and actionable prospects into the pipeline," says Powell. "WealthEngine identifies highly qualified prospects for us out of the mess of information that could potentially be a barrier to success. With 4,000 patients coming through our doors each week, we would never be able to rank and segment our best prospects for various initiatives, much less call them. Applying prospect research, particularly regular screening, to our grateful patient program provides structure, insight, convenience and action. It allows us to focus our limited staff resources on those with the highest potential and greatest gift capacity."

An additional benefit to prospect research is the credibility that it brings to the development office. "Prior to our use of screening, we briefed key members of the board on the product," notes Powell. "Today, not only does our hospital leadership know about prospect research, we've shown them the proof behind ask amounts for major gift donors and prospects. Often, we'll discuss a prospect with a board member and immediately pull up their online profile. The data gives us instant credibility and there is collective agreement among staff and leadership that the ROI is obvious—it's a valid use of time and expense."

St. John's College High School

Engaging Alumni and Prospects to Drive Fundraising

When Philip Brach, Vice President for Institutional Advancement at St. John's College High School in Washington, DC, runs into a donor, he's likely to unholster his handheld device. Why? To check their giving capacity, of course. Brach has downloaded giving history and gift capacity rating for all 19,000 of St. John's donors into his PDA.

With a commitment to prospect research and help from technology, St. John's College High School raised over $15.5 million in their last capital campaign, boosting their average capital gift commitments by four times the number of their previous campaign and receiving a "huge" number of firsttime major gifts. Brach himself has closed four $1M gifts from new donors, explaining, "These results are specifically due to better research on our part, and WealthEngine played a big role in that."

Data Analysis at the Foundation

Brach believes in looking at metrics and analytics to identify trends and gift potential. "I'm very data driven," he says, "I've done the math and know that prospect research and analytics pays off." To determine an inclination to give and an ask amount, he researches each prospect in WealthEngine's FindWealth Online and uses three figures; his own RFM score, the WealthEngine gift capacity rating and real estate valuation. Brach uses the RFM to code St. John's donor database so each donor and prospect is clearly defined for fundraising efforts. RFM is a statistical formula that identifies:

- Recency—how recently the last gift was given
- Frequency—how frequently the donor gives
- Monetary—how much the donor has given in total

Brach then uses WealthEngine's gift capacity rating to determine ask amounts. When he first considered adding the gift capacity rating to his model, he tested WealthEngine's gift capacity levels against his own data by reviewing the capital and annual gift histories for his top 30 donors. "I found the results to be unbelievably accurate, especially when you base it against the range of donor/prospect engagement with the school. The gift capacity rating was within 1%-5% of my top donors' average annual gift and 5-10% within their capital campaign gift. The ratings are proven and I use them to ensure we are always on target."

St. John's College High School's leadership campaign phase (ask of $25,000 or more) has delivered strong results.

Total leadership commitments: 150 gifts

First time capital gifts: 97 gifts totaling $2.7M

Repeat capital campaign donors: 53 gifts totaling $5.4M, nearly 60% of which are higher amounts

"The use of WealthEngine contributed significantly to our ability to identify new leadership gifts and to seek higher amounts from existing donors."

—Phil Brach, Vice President for Institutional Advancement

For example, WealthEngine identified one alumnus who had given $100,000 in the previous capital campaign and had verbally shared that he would give $150,000 in the current campaign. With the data on his side, Brach knew that the donor had a greater gift capacity and St. John's made a higher ask securing a gift of $500,000. The donor placed two conditions on the gift; 1) St. John's was to acknowledge the gift under both his and his wife's names and 2) Brach had to show the donor how he had been identified as a major gift prospect and how he formulated the seemingly high ask amount. Brach introduced the donor to the WealthEngine data where he was impressed to see even his boat ownership noted. The donor also went on to chair the campaign.

Brach's third ingredient for evaluating donors and prospects is real estate. "For the Washington, DC area, I've found that anyone who has more than $400,000 in real estate, as well as strong RFM and gift capacity scores, is likely to have something more to offer and we can proceed with the assurance that the analytics are on target," explains Brach. "For those under that threshold, we are careful not to underestimate their potential and will conduct more research."

Cultivating Parents Early and Often

Brach follows a multi-touch approach, using every opportunity to engage parents early and often. He notes, "We conduct freshman parent screenings through WealthEngine with our results posted in FindWealth Online History. The screenings help us to identify potential so we can start engaging parents during the summer."

Brach capitalizes on every opportunity to collect prospect data, including open houses, special events, even family networks. Says Brach, "This is critical as we've found that the gift level of parents who are alumni and have children attending St. John's are four times higher than alumni that do not send their children to the school."

Cultivation after special events also yields a high return for St. John's. "I've looked at donations from event attendees one year before the event and one year after. The average increase is 21%," adds Brach.

Tips for Engaging Donors, Prospects and Alumni

St. John's success involves using prospect research as the foundation of their fundraising strategy. Some of Brach's suggestions for staying updated on donors and prospects, as well as engaging alumni, include:

- **Set up an email tracking system.** Resources such as Google Alerts and Dialog NewsRoom can help track targets. Also keep your eye on local business journals which can provide timely information on donors and alumni, such as a prospect who may have recently sold their business or a donor who received a special recognition or award.
- **Use social networking resources.** Facebook, LinkedIn and other social networking sites can help you research and confirm biographical information on prospects. Information and photographs on family, friends and interests can provide valuable insight and conversation starters.
- **Look for unique opportunities to create affinity with a department or program.** St. John's sent a memorial solicitation letter to all 300 students who played football under a long-time, much loved coach.
- **Use prospect research to determine the leadership of class reunions.** Brach uses WealthEngine to determine the gift capacity of class alumni and invites the top 5-10 prospects to serve on a class reunion committee.

> "I've looked at donations from event attendees one year before the event and one year after. The average increase is 21%."
>
> —Phil Brach, Vice President for Institutional Advancement

With the right combination of WealthEngine data and analytics, St. John's High School has created a strategy for segmenting and prioritizing donors and prospects for fundraising initiatives, as well as pinpointing highly accurate ask amounts. Then, they leverage every opportunity to engage their constituents—donors, prospects and alumni—to ensure their fundraising is on a solid path for continued growth.

Conclusion and Next Steps

Evaluating Return on Investment provides great advantage for moving a nonprofit organization's development office, its management and the board forward in aligning the business of fundraising with their overall philanthropic mission. ROI and CRD benchmarks can and should be established for the various fundraising activities that are designed to produce contributions, including donor acquisition, donor renewal, special events, major gifts, planned giving, capital campaigns and grantseeking. The ROI of these activities should be managed separately because of their distinctly different purposes, varied sources of funds, and/or individual performance characteristics, while at the same time, factoring all activities into overall performance metrics for the organization. All of these metrics, taken individually and combined, can help the organization better understand the economic benefits achieved by their various fundraising efforts and recognize how investing in one activity versus another may yield better results.

Additionally, when measuring the ROI for each fundraising activity, the investment in prospect research should be considered. This provides a meaningful assessment of the impact that prospect research can have on the overall effectiveness of the organization's fundraising efforts, especially when looking at the figures and ratios over three, five and ten year periods. This information is especially important to board members, CFOs and others who have a voice in how the fundraising budget is established and managed. It allows the nonprofit organization to potentially increase their prospect research budget by providing the proof positive that prospect research is an investment that yields positive results.

> Measuring ROI can be a challenge for even the most sophisticated development offices; it requires a systematic process, a long term commitment and the tools to track and measure results consistently.

Endnotes

1 Nonprofit institutions that serve households (NPISH), as defined by the Bureau of Economic Analysis, make up 5% of U.S. GPD. Taken from *An Overview of the Nonprofit and Charitable Sector*, CRS Report for Congress, Prepared for Members and Committees of Congress, November 2009.

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Appendix 1—Worksheets

Table 1: ***Office of Prospect Research and Development—Prospect Qualification Report***

This example uses a table that can track and report the number and sources of prospects that have been qualified at various capacity levels within the reporting period.

Research Source	Number of Prospects Research Qualified in Period					% of Total in Period
	$5M+	$1-$5M	$500K-$1M	$250K-$500K	$100K to $250K	
Peer Referral	0	2	4	16	24	12%
Push Technology - news alerts	1	1	0	7	13	7%
Subscriptions	0	0	1		2	1%
Data Mining Score	0	3	2	9	25	13%
Wealth Screening - 2008	1	4	15	28	78	40%
Parent Screening - 2008	1	1	3	21	33	17%
Staff Referral	0	0	2	3	12	6%
$5K Gift Report	0	1	0	1	2	1%
$1K Gift Report	0	0	2	5	7	4%
Total for Period	3	12	29	90	196	100%

Table 2: ***Office of Prospect Research and Development—Major Gift Closed Gift Report***

This example demonstrates major gift activity over a specified period. The report not only tracks major gift activity by solicitor, but measures the efficacy of research by analyzing the source of the prospect identification, any variance in the gift received from the research rating, and the length of time and number of contacts required to secure the gift.

Individual Major Gifts for Q4 2009	Research Source	Major Gift Assignment	Research Rating (low end)	Amount Received	Overage or (Underage) from Rating	Date Prospect Identified	Date Gift Received	Length of Cultivation (in months)	Number of Contacts
Gift 1	Wealth Screening	Lisa Brown	$1,000,000	1,000,000	$0	12/13/2007	12/5/2009	24	9
Gift 2	$1K Gift Report	Jim Butler	$100,000	50,000	-$50,000	6/25/2008	12/10/2009	18	5
Gift 3	Staff Referral	Sarah Smith	$50,000	25,000	-$25,000	8/19/2007	11/15/2009	27	8
Gift 4	Peer Referral	Jennifer Dunn	$500,000	1,500,000	$1,000,000	4/13/2008	12/1/2009	20	7
Gift 5	Parent Screening	Jennifer Dunn	$250,000	85,000	-$165,000	1/10/2008	10/26/2009	22	8
Gift 6	Wealth Screening	Jim Butler	$25,000	35,000	$10,000	11/15/2007	10/16/2009	23	5
Gift 7	Parent Screening	Lisa Brown	$50,000	25,000	-$25,000	4/7/2007	11/4/2009	31	12
Gift 8	Peer Referral	Sarah Smith	$100,000	50,000	-$50,000	3/28/2008	10/2/2009	18	4
Gift 9	Peer Referral	James Guttierez	$250,000	250,000	$0	6/30/2008	10/31/2009	16	7
Gift 10	Wealth Screening	James Guttierez	$5,000,000	1,500,000	-$3,500,000	8/12/2008	12/17/2009	16	10
Gift 11	$1K Gift Report	Lisa Brown	$50,000	30,000	-$20,000	9/16/2007	12/30/2009	27	3
Summary			**$7,375,000**	**$4,550,000**	**-$2,825,000**			**22 mos average**	**7 average**

Table 3: ***Office of Development—Return on Investment from Fundraising Operations***

This table is an example of a report that can be generated to calculate return on investment, as well as cost per dollar raised, for individual fundraising programs as well as for the overall fundraising function. Figures are for example only, and do not represent benchmarks or ideals against which organizations should measure their results.

Expenses	Overall	Major Gifts	Annual Fund	Corp & Foundations	Planned Giving
Salary & Benefits					
Fundraiser Salary & Benefits	795,000	400,000	120,000	125,000	150,000
Prospect Research Salary & Benefits	200,000	125,000	50,000	12,500	12,500
Administrative Overhead	200,000	50,000	50,000	50,000	50,000
Subtotal Salary & Benefits	**1,195,000**	**575,000**	**220,000**	**187,500**	**212,500**
Direct Expenses					
Travel	80,000	60,000		10,000	10,000
Meals	4,200	2,000	500	1,200	500
Events	43,000	30,000	10,000		3,000
Telephone	4,000	1,000	1,000	1,000	1,000
Printing & Mailing	6,500		4,500		2,000
Office Supplies	2,000	500	500	500	500
Equipment	0				
Maintenance	0				
Dues & Memberships	0				
Donor Recognition	20,000	10,000	5,000		5,000
Professional Development	12,000	6,000	2,000	2,000	2,000
Research Subscriptions	27,500	20,000		2,500	5,000
Screening	20,000	20,000			
TOTAL EXPENSES	**1,414,200**	**724,500**	**243,500**	**204,700**	**241,500**
Revenues					
Major Gifts	8,600,000	8,600,000			
Corp & Foundation	2,100,000			2,100,000	
Annual Fund (Direct Mail, Telethon, Events)	1,500,000		1,500,000		
Planned Giving	4,300,000				4,300,000
TOTAL GIFT REVENUE	**16,500,000**	**8,600,000**	**1,500,000**	**2,100,000**	**4,300,000**
NET REVENUE (Total Gift Revenue-Total Expenses)	**15,085,800**	**7,875,500**	**1,256,500**	**1,895,300**	**4,058,500**
Cost per Dollar Raised (Total Expenses / Net Revenue)	$0.09	$0.08	$0.16	$0.10	$0.06
Return on Investment (Net Revenue / Total Expenses)	1067%	1087%	516%	926%	1681%

Appendix 2—Frequently Used Research Sources

The range of resources used by researchers, both fee-based and free, were summarized by frequency of mention in WealthEngine's *Best Practices for Prospect Research in Higher Education Fundraising* Report. They are listed below; note that similar findings were reported by *The Chronicle of Philanthropy* and Campbell Rinker in their *Prospect Screening Products and Services Study: 2008 Edition*.

Fee-based Resources	# of mentions	Fee-based Resources	# of mentions
WealthEngine	38	Wall Street Journal	2
Lexis Nexis	28	Accurint	2
iWave	13	State-specific books & directories	2
Alumni Finder	13	Obituary Registry	2
Hoovers	9	APRA	2
10K Wizard	8	DonorSeries	1
Dun & Bradstreet	5	Ancestry.com	1
Foundation Center	5	Edgar	1
Foundation Directory	5	Marquis Who's Who	1
Blackbaud/WealthPoint	5	BigOnline	1
Foundation Search	3	Chronicle of Philanthropy	1
NOZA	3	Dialog	1
Factiva	2	Sorkins	1
NY Times	2	Newsbank	1

Free Resources	# of mentions	Free Resources	# of mentions
Google	32	Cyberhomes.com	1
Zillow	11	Corporateinfo.com	1
Newpapers	10	Clusty.com	1
Guidestar	9	Bestplaces.net	1
Magazines	8	NNDB.com	1
Yahoo! Finance	6	Barron's	1
Assessors web sites	6	Social Security web site	1
White pages.com	5	Lexis Nexis Academic	1
ZoomInfo	5	Internet Prospector	1
Pipl	5	Propertyshark	1
SECinfo.com	4	Anywho.com	1
MarketWatch	4	Foundation Center	1
Forbes	4	David Lamb's Research page	1
Institutional database	4	State campaign sites	1
Yahoo! Real Estate	3	UVA Portico	1
Libraries	3	Proquest	1
Professional networking	3	Big Charts	1
Hoovers	3	BizStats	1
Salary.com	3	Manta	1
Obituary sites	3	Mucketymuck	1
Martindale-Hubbell	2	Ask.com	1
AMA Online	2	All State Property Info	1
Pulawski.net	2	Earnings.com	1
Social networking sites	2	CASE	1
FEC	2	AFP	1
Yellow Pages	1	Institutional knowledge	1
Telephone directories	1	Yearbooks	1

Source: *WealthEngine Best Practices for Prospect Research in Higher Education Fundraising*, 2009.

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