Cost Benefit Analysis of Fundraising

There are two simple, and related, calculations necessary to determine the effectiveness of a nonprofit’s revenue-generating activities. The first is net revenue. NET revenue is so much more informative than GROSS revenue. Gross revenue is the total of all money brought in because of a fundraising activity (a direct mail appeal, a gala, a foundation grant, a major gifts campaign). But that figure is meaningless until you understand what it COST you to bring that money in the door. These costs are both DIRECT (the materials required for the activity, the staff that worked directly on the activity) and INDIRECT (volunteer hours, overhead staff time). You only really know how much money you made once you subtract the costs to make it.

**Net Revenue = Gross Revenue – Fundraising Costs (Direct and Indirect)**

Here is an example: Let’s pretend that a nonprofit organization with a $500,000 annual budget throws an annual gala with a band, catering, and an auction. One staff member spends half their time getting the event together, and a board committee helps sell tables and provides oversight. At the end of the event the organization grosses $100,000. They are thrilled that they have made 20% of their annual budget in one night, right? **Wrong.**

**That’s only the gross revenue**. What is the net revenue of this gala, i.e. what did it cost them to raise that money? The direct expenses for the event (the band, venue, food, decorations, invitations, etc.) cost them $50,000.

**Direct Expenses = $50,000**

But they also need to factor in the **indirect expenses**. Their event coordinator spent half a year preparing for this event. Their Executive Director attended meetings, made phone calls to invite people, and came to the event. The Development Director worked on the event. And the board committee put in many hours planning, marketing, and attending the event. So if we calculate the hourly rate of those staff member’s time (salary and benefits) and multiplied it by the hours they each worked, we’d get the cost of their time. We also need to do the same for board members. We can use the standard value of volunteer hours ($20.25) multiplied by the number of board members who worked on the event and the average number of hours they spent. If we add all of this up, we get:

**Event Coordinator = $15,000**

**Executive Director = $4,000**

**Development Director = $5,000**

**Board Members = $3,000**

**Total = $27,000**

So the total costs of the gala were:

**$50,000 (direct expenses) + $27,000 (indirect expenses) = $77,000**

And, the **net revenue** on this event was:

**$100,000 (gross revenue) – $77,000 (direct and indirect costs) = $23,000**

Which brings us to the second critical calculation: Cost to raise a dollar. How much did it cost the organization to raise that $23,000?

**Cost to Raise $1.00 = Costs (Direct and Indirect) / Net Revenue**

**$77,000 / $23,000 = $3.35**

**So it cost this organization $3.35 to raise $1.00. That’s not an attractive return is it?**

Although this organization actually made money, the cost of making that money is far larger than the money they made. And how does the cost of making this money compare to their other fundraising activities?

Here is another example: Pretend your organization hires a major gift officer at a salary of $50,000 per year plus benefits. **Her salary and benefits are the direct costs**. The indirect costs could include: the Executive Director’s and board members’ time to go on donor and prospect visits, creation of materials, and the sending of thank you letters. **The total for these direct and indirect costs would be $90,000**. Say that this major gift officer raises $300,000 per year in major gifts. So the net revenue would be:

$300,000 (gross revenue) – $90,000 (direct and indirect costs) = $210,000 Net Revenue

And the cost to raise a dollar would be:

$90,000 (direct and indirect costs) / $210,000 (net revenue) = $0.42

**So it takes $0.42 to raise $1.00. That’s a dramatically better return on investment than the gala that cost $3.35 to raise $1.00**

**Net Revenue = Gross Revenue – Fundraising Costs (Direct and Indirect)**

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**Cost to Raise $1.00 = Costs (Direct and Indirect) / Net Revenue**

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