

ASSESSING FUNDRAISING COSTS

Far too many non-profit organizations fail to assess their fundraising effectiveness in terms of the relationship between direct costs and resulting donations. The following guidelines can be helpful in making such assessments, but keep in mind that many variables – from organization size and geographic location, to mission and special programs – have to be taken into consideration when making a final judgment about fundraising effectiveness.

Overall Cost/Result Effectiveness

Generally speaking, a range of 15 percent to 25 percent of direct costs to dollars raised is a good guideline for most non-profit organizations involved in comprehensive fund- and friend-raising efforts. Fundraising includes all efforts and activities by an organization to secure charitable contributions. Friend-raising focuses on constituency-relation programs sustained through publications, communications, and special events. The percentages above are just guidelines: spending less than 15 percent may represent an under-investment in fundraising, while for some organizations, spending more than 25 percent over the near term may represent wise investment in new fundraising programs and initiatives.

Fundraising Methodologies: Cost/Result Effectiveness

Direct Response Marketing: A 35 percent to 100 percent ratio of direct costs to dollars raised is a broad guideline for direct mail and telemarketing fundraising. Ratios in the higher range typically result from new donor acquisition efforts. When soliciting an identified, well-informed constituency, such as an alumni body, ratios in the 15 percent to 35 percent range can be achieved. The major costs of direct response marketing generally involve the design, printing and distribution of fundraising materials, and, if utilized, the services of a reputable telemarketing firm.

Direct response marketing generally yields between .05% and 5% response depending on the nature of the distribution list(s) used; for example: prior donors, lapsed donors, purchased lists, affinity lists from comparable non-profit organizations.

Major Gifts Solicitations: A 5 percent to 15 percent ratio of direct costs to dollars raised can be achieved through the process of personal contact, cultivation and solicitation of potential major donors, especially when both dedicated volunteers and experienced professional staff are involved. The direct costs would include professional staff time along with personalized solicitation materials and presentations.

Capital and Endowment Campaigns: A 5 percent to 15 percent ratio is a reasonable guideline for major fundraising campaigns focused on securing a number of high-end initial "transformational" and "lead" gifts. Such campaigns would commonly progress through

sequential phases of solicitation from higher to lower dollar gift levels, with a final phase of broad solicitation efforts typically utilizing direct response marketing.

Special Events: An inaugural fundraising special event may yield disappointing fundraising results after considering the initial start-up and operating costs involved as well the inevitable “lessons learned” to be corrected in future events. Over subsequent years, however, 50 percent to 80 percent of event net proceeds from gross revenues may be an achievable goal.

Website: Reliable statistics of cost/result effectiveness from web-based fundraising is not yet available

Professional Staff Compensation and Benefits

We have found generally that at least two-thirds (66%) of an organization's fundraising budget is reasonably allocated to professional staff compensation and benefits.

Fundraising Cost Guidelines

24% Average Overall Fundraising Costs in the Nonprofit Sector. A research project evaluated management costs as reflected on IRS 990 forms submitted by 37,500 nonprofit organizations, and then surveyed more than 1,500 nonprofits to gather further information regarding fundraising expenses. Costs varied depending on size of organization and sub-sector within philanthropy. (*Giving USA Update*, Issue 2, 2003, produced by AAFRC Trust for Philanthropy)

Comparing Fundraising and Administrative Cost Data. Comparisons with other non-profit organizations and their IRS 990 tax returns can be helpful in “benchmarking” for improvement in an organization’s fundraising strategies and allocation of resources. However, there is considerable difficulty in comparing fundraising cost data in that “*underreporting of fundraising expenses is a major concern in the nonprofit sector*”. (Urban Institute Center for Philanthropy, University of Indiana Center for Philanthropy February, 2004)

Costs of Capital Campaigning: Generally accepted principals of campaign fundraising indicate that budgets for campaign-related expenditures in the range of 5% to 15% of a campaign’s total dollar goal are required. The lower of the range applying to those institutions with significant prior campaigning experience involving dedicated and active volunteers; interested and informed constituencies; and, professional staff and fundraising management skills and systems. The higher the range would apply to those institutions lacking in such experience and fundraising leadership.

With respect to campaign budgets it is important to point-out that adequate *advance* budgeting is essential, as is the prudent expenditures of dollars to limit ultimate campaign-related costs.

