

Virtual Water Cooler Chats

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ROI is King

Different ways to identify Return On
Investment

How ROI is King

- ▶ Of course “roi” is French for “king”

But ROI is the King of Fundraising Metrics

- ▶ Return on investment is the most important measure of how your shop is doing
 - You can determine ROI for your shop as a whole, events, mailers, phonathons, or any other fundraising exercise
 - You can even predict ROI for events based on specific choice of parameters during a fundraising exercise

Simple ROI Rules

- ▶ Charles the Simple (aka Charles the Straightforward), King of West Francia and Lotharingia
 - Deposed in 923 and replaced by Raoul of Burgundy



ROI at its Simplest

▶ $\text{ROI} = \text{Net Income} \div \text{Cost of Investment}$

- In other words, “how much did it cost us to raise a dollar?”
- Question: are we including “everything” we spent to raise a dollar?
Should we?

Best Uses of Simple ROI

- ▶ Simple ROI is probably best for “macro-economic” fundraising—i.e., looking at one entire shop, or one industry
 - How do we account for actions or assets that benefit more than one part of a shop’s fundraising efforts?
- ▶ “Smoothing out” ROI—consider a campaign where greater expenditures are made one year to raise gifts in later years



Fairer Rules for Inclination-Raising Activities

- ▶ Louis the Fair (aka Louis the Pious), King of the Franks
 - Co-ruler with his father, Charlemagne
 - Extended Frankish kingdom to Barcelona and the Basque Countries

How Can We Truly Identify ROI When...

- ▶ ...we might not see the effect of an activity like an event or a mention in the alumni newsletter for years to come?
 - These activities might now have giving attached to the event, but they might encourage giving to “other” activities later
 - By the way, this is not “friendraising,” this is cultivation

A Holistic Approach to ROI

- ▶ Don't assume that "ROI" applies to fundraising activities in isolation, look at the overall return
 - For example: for an event, look at giving by attendees twelve months before and twelve months after the event
 - For stewardship activities, you might need to take an even longer-term look...up to five years on either side of the activity (assuming you are researching campaign-level gifts; for annual fund gifts you can use a 12-month window)

ROI for Activities Leading to Gifts



► Ivan Moneybags (aka Ivan Kalita), Grand Duke of Moscow

- Alliance with the Mongol Golden Horde made him personally rich—hence his nickname
- Won battles against his four brothers for the throne...then sent his brothers to be executed by the Golden Horde

Effectiveness of Cultivation Activities

► Here we are asking the questions:

- What are the actions which make our prospects more likely to give at a major or principal level?
- Are those actions cost effective? (Remember, in order to determine ROI you need to look at *all* actions performed by your shop, whether or not they led to a gift!)

Linear Regression for ROI

- ▶ Running a linear regression allows you to identify which actions were likely to lead to a gift, which actions were likely to *prevent* you from getting a gift, and which actions were statistically insignificant
- ▶ Having run the regression, you can then use the resulting co-efficients to identify an “optimal action plan” for your top prospects

Predicting ROI Through Choice of Parameters

- ▶ Oleg the Seer, Konung of Varangia Rus' (modern-day Ukraine and western Russia)
 - Sworn enemy of the Vikings
 - Called “the Seer” because he allegedly foretold his own death



Wait, We Can Determine ROI Before It Happens?

- ▶ OK, not exactly...but we can choose parameters for an upcoming activity which will help maximize ROI
 - Examples of activity parameters: to which segments should we send a mailer so that we will get the best return? Where should we hold an event so that the most invitees (or the best prospects!) will be likely to attend?

Microsoft Solver

- ▶ The following exercise will be performed with the use of Microsoft Solver, a plug-in for Microsoft Excel
 - Instructions on how to download and use Solver will be available for download from our website

What Are Your Questions?



Keeping in Touch with Us

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