The **NonProfit's Guide to Data-Driven Decisions**

5 Steps to Increase Outcomes, Raise More Money and Improve Cash Flow

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GrowthForce™

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Dedicated to Jack G. Healey, Executive Director of Amnesty International USA, who trusted a 29-year-old with managing, and then raising Amnesty's money.

Introduction

How Financial Intelligence Can Help You Fulfill Your Mission

This ebook is about helping nonprofits get financial metrics that drive better outcomes, raise more money and improve cash flow. *It's a step-by-step guide to building a management reporting system that will provide the financial information to help you make data-driven decisions.*

This strategy will help you ensure your programs make sense financially and are sustainable.

In many ways, decision making for a nonprofit is more complex than in a for-profit business. Nonprofits must take into account non-financial measures and make decisions based on outcomes and impacts which are often hard to measure.

Just like a well-run business makes "data-driven" decisions to drive measurable results, a nonprofit needs financial intelligence to help management and the board make decisions that will create outcomes that "fulfill the mission".

What decisions do you need to make?

What are the drivers of those decisions?

What data do you need to measure and monitor those drivers?

Since this ebook is geared towards service-based nonprofits, we share scenarios from a women's shelter and a special needs organization using examples that any organization can relate to. These organizations call the people they serve "clients". Regardless of whether you call the people you serve students, patrons, patients, cases, or residents, the concepts are the same.

The Outcomes Movement* Vernacular

The nonprofit industry is awakening to a new way of measuring effectiveness based upon outcomes, instead of traditional financial metrics like fundraising percentage. ***Measuring outcomes is an important way to fulfill your mission.*** *The vernacular of the outcomes movement is used throughout this ebook.*

Goals: An observable and measurable end result that has one or more objectives within a defined timeframe.

Objectives: Specific steps needed to achieve the goals, which are usually a series and relatively short-term in nature.

Programs: Integrated resources and activities that provide a product or service to clients.

Outputs: This is what your program or service produces in numerical form; e.g. number of meals served, counseling sessions, graduates, etc. (in accounting these outputs are sometimes called service items or units.)

Outcomes: Are the changes that occur because of your programs. Outcomes are measurable. They are the direct, intended beneficial effect on the stakeholders or interests of the organization.

Impacts: These are the long-term indirect effects – eventual benefits from your programs and outcomes. What we hope our efforts will accomplish. Impacts are what we hope for, outputs are what we work for.

For a women's shelter, the **mission** is to "break the cycle of homelessness".

The **goal** is to help people get their first job.

The **objectives** are to provide counseling and training.

The primary **output** is completing a series of six vocational training programs.

The **outcome** is the number of people who got jobs because of the training. The positive result when counseling and the training series have been completed.

The **impact** is the long-term benefit to the clients and community...the driver with the greatest impact to best accomplish their goal of helping women get their first job and break the cycle of homelessness.

* Source: The Nonprofit Outcomes Toolbox, Robert M. Penna, Wiley, 2011.

The Five-Step Framework

This ebook outlines a* Five-Step Framework *for data-driven decision-making. You will understand how to use your financial metrics to get actionable financial intelligence out of your accounting system – leading to better decisions and more impactful programs and outcomes.

If you follow the steps in this framework, your decisions will be backed by reports and KPIs that provide powerful insight into your organizations sustainability and growth.

- Step 1 **MISSION** — Define Your Mission
- Step 2 **PROGRAMS** — Focus on the Core Program Decision Matrix
- Step 3 **OUTCOMES** — Identify the Outputs that Drive Outcomes
- Step 4 **REPORTS / KPIs** — Design a Management Reporting System
- Step 5 **DECISIONS** — Make Data-Driven Decisions

Step 1

MISSION

Define Your Mission

Step one of the five-step framework is to confirm the mission's purpose. Understanding why your organization exists and documenting your desired outcomes, clarifies how to fulfill your mission.

Defining Your Goals and Objectives

Hopefully, you already know your "Why", have defined your goals and objectives, and have developed programs that generate outputs and outcomes that help your vision become reality.

If not, that's the first step. Start with goals that are clearly defined and in writing. For many nonprofits, the top three goals focus on how you:

1. Serve more people
2. Create better outcomes for the people you serve
3. Get more donors to contribute towards those outcomes

Once you have your written goals, you should then distill your objectives which are measurable steps to achieve your goals. These written goals and objectives become the starting point for measuring your outcomes and outputs.

Whatever your goals are, they need to be measurable, but they don't need to be complicated.

The easiest way to start is by getting your managers to fill out this mad lib:

We will *<action verb>* by *<measurable result>* by *<due date>.*

For example:

We will *increase fundraising from major donors* by *$15,000* by *September 1st*.

We will *increase the number of clients who get a first job* by *30%* in *2018*.

>>> Writing down your goals will increase your likelihood of success by 50%. [1]

[1] *http://www.goalband.co.uk/the-research.html*

Step 2

PROGRAMS

Focus on the Core Program Decisions Matrix

After you've clearly defined your goals and objectives, you should measure the effectiveness and economics of each program including their outputs and outcomes. **This will allow you to have better visibility into the impacts your organization is having on the world.**

The Core Program Decision Matrix

To make decisions based on data, you first need to identify the core decisions that do the most to drive success. After studying nonprofit organizations of all sizes for over twenty years, we've narrowed it down to these **core four decisions**:

- **Which programs do you stop, start, or continue?**
- **When should you hire staff?**
- **Who should you serve – what defines the right client?**
- **How do you get the biggest ROI from development?**

In this ebook, we'll show you how to access the economics behind each decision. When you combine this financial data with your non-financial drivers, you'll know which programs deliver the most impactful outcomes and at what cost.

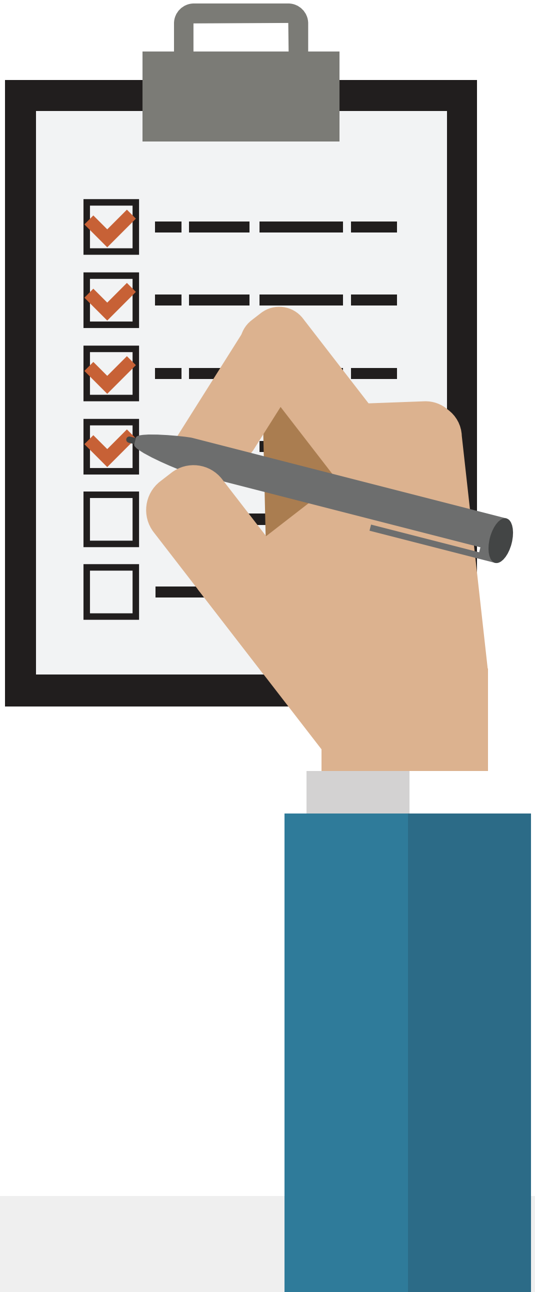
Knowing the cost of your outcomes will help you raise more money, and donors like to be shown the tangible, effective outcomes their gift contributes to helping achieve the mission.

If you get these four decisions right, you will improve the quality and the quantity of your outcomes, which will make your organization more effective.

Core Decision: Which Programs Do You Stop, Start, or Continue?

The most important decision an organization will make is which programs best fulfill the mission? You decide this by answering the following questions:

- Which program(s) directly impact your **mission?**
- Which of those program(s) achieve the greatest **outcomes** for the people you serve?
- Which program(s) contribute the most to your development **goals**?



The answers to those questions will help you decide which programs you should stop, start or continue. The programs that do not score highly on these questions indicate where you need to do some soul-searching. **Where do you generate the most outputs that drive outcomes?** Those are the ones you need to keep.

The ideal programs also contribute to raising money. That helps you drive more outcomes. Money shouldn't drive programs, but you need to have the funding before adding any new programs or you'll have to cut somewhere.

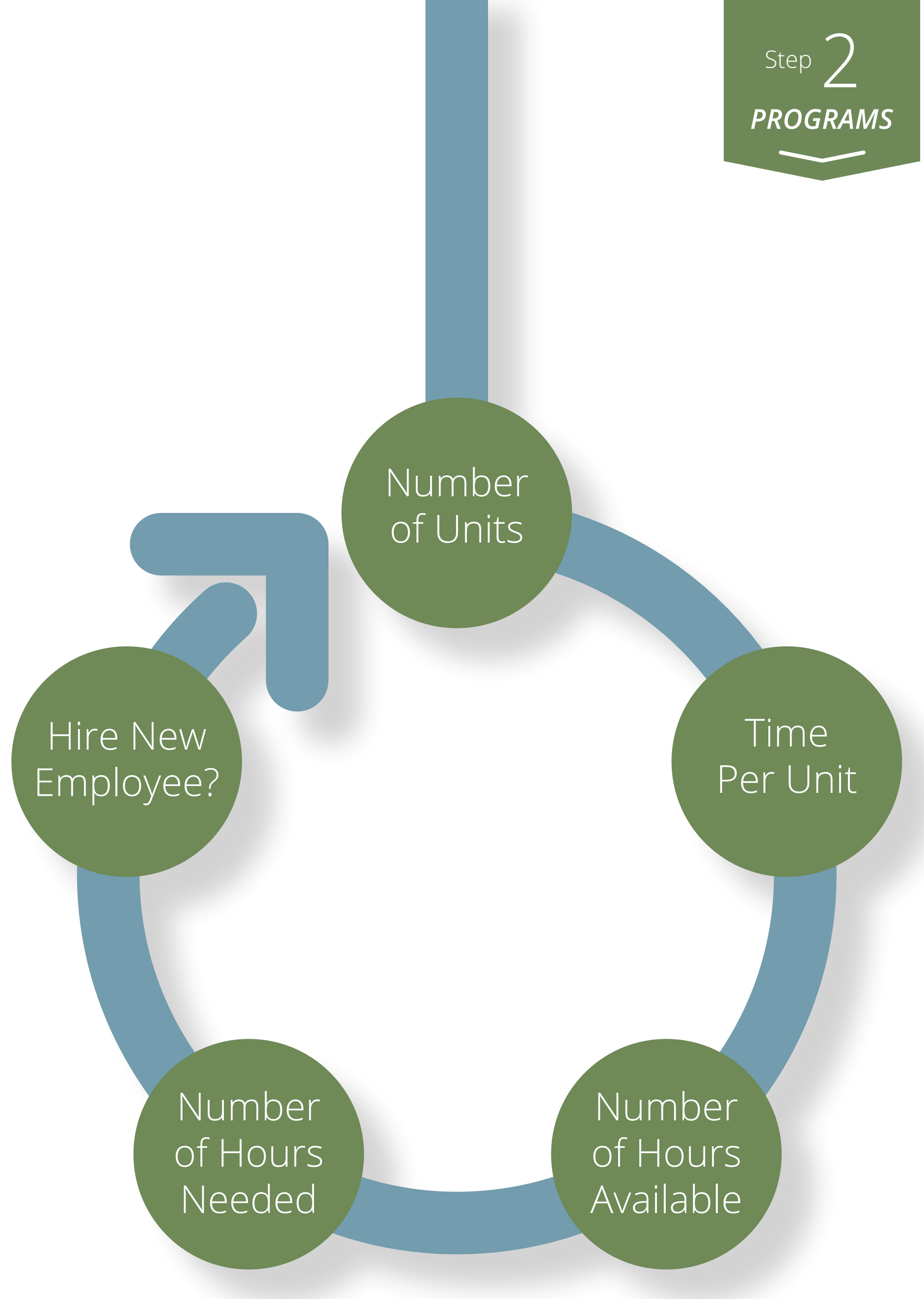
Core Decision: When Do You Hire New Staff?

Another big decision is when to add a new position in the organization. Payroll typically accounts for 70% or more of the expenses in a nonprofit. You need to be cognizant that every employee you add becomes a new fixed cost.

The best way to support a new position is to understand your programs, and staff workload, in terms of service "units". A unit is an output. It's the service you provide; in QuickBooks® it's a "service item". In a shelter, a service unit would be face-to-face intakes, cases managed, days in a shelter, hot line calls, or career counseling sessions.

Once you know how many service units you want to provide, then estimate the time it takes to deliver each unit. Do the math and compare the hours needed with the hours available from existing staff. If you are short on hours, it's time to add more staff to achieve the goal. Doing these calculations will enable you and the board to make a data-driven decision about when to hire a new employee.

This staff request should help you raise money. **Adding staff is a great time to ask your major donors for help.** If you can show your donors how many "service units" or outputs a new employee can deliver, you'll be able to see the tangible results their donation will make on the outcomes and mission of the organization. That numerical case statement will get you larger gifts.



Core Decision:
Which Clients Should You Serve?

One of the most important decisions to make is which clients you should serve. Unless your mission is to serve anyone who comes to the door, a well-run organization can't serve clients who compromise or obstruct your organization's primary objectives.

Not all clients are created equal. Some clients are better suited to your program than others. The hard part is to figure out whom you should serve.

Who is your ideal client? For whom do you add the most value, and who are you not designed to serve? You figure that out by measuring which clients leverage your services and create the most outcomes.

DETERMINE WHICH TYPE OF CLIENTS CREATE THE BEST OUTCOMES -- THEY ARE THE CLIENTS WHO SHOULD GET YOUR LIMITED RESOURCES.

For example, the women's shelter had a policy of not turning anyone away – first come, first served. However, since all 112 beds are full every night, to increase the number of outcomes, they had to figure out which clients will benefit most from their services, leading to the desired outcome of getting a first job.

Clients who refuse to participate in counseling, or choose to repeat the cycle of abuse, hinder the opportunity to give someone else a chance who wants to break that cycle. That compromises the ability to best achieve the mission.

Core Decision: Which Development Programs Generate the Greatest ROI?

In a Development office, ROI should be measured two ways:

1. Which development activities generate the most money, per dollar spent, to fund programs?
2. Which programs generate the most income, either earned or contributed?

Development is the easiest program to evaluate ROI. First, calculate how much you raised per dollar spent. To do this right, **you have to include fully loaded labor costs in the calculation**. Many organizations only look at out of pocket costs and they miss the biggest expense of the organization – the people costs.

You should also measure which programs your donors want to contribute the most to. They are usually the programs with the most tangible results. **The more you can demonstrate to a donor how their contribution impacts the agency and its clients, the more money you can raise to improve outcomes.**

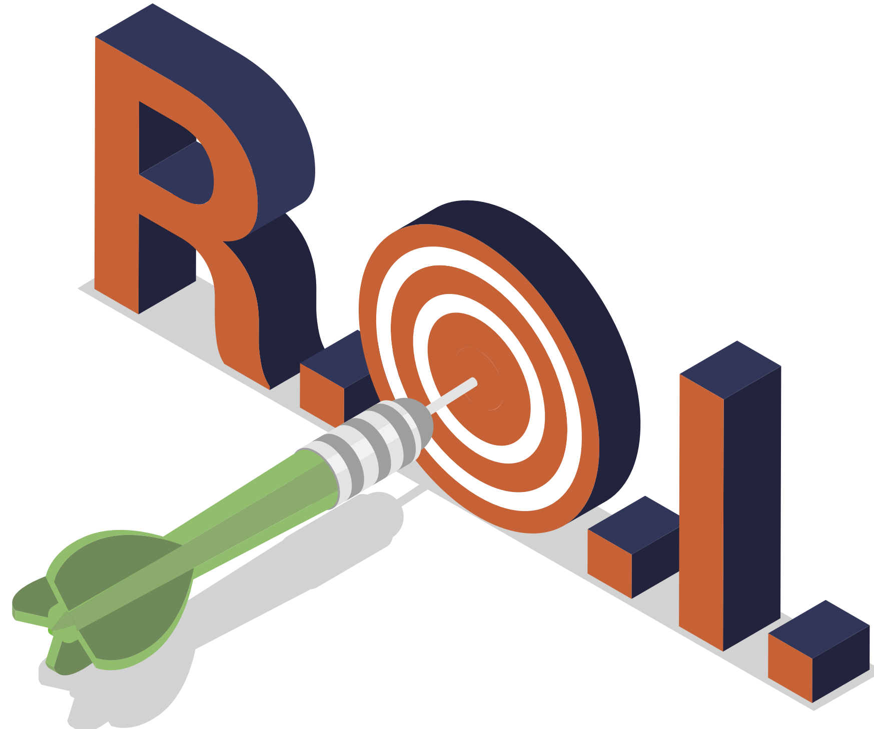
You can better engage donors if you show the costs to provide your services and the outcomes that result from these outputs. These "unit economics" are a good way to show the resources required to create better outcomes. **Showing a donor the ROI on their gift is the foundation of a strong "Case Statement."**

For example, the Shelter wants to hire someone to do vocational training. They know the training helps clients get a first job which breaks the cycle of homelessness. By quantifying the exact costs of the new position and the number of women who could complete the training, donors will give more because they can see how their contributions impact the agency and its clients.

Step 3

OUTCOMES

Identify the Outputs that Drive Outcomes



So how do you get the data you need to make decisions?

Start by breaking down your goals and objectives into outputs. These outputs are your products and services, and they become your primary organizational drivers. Since outputs have the biggest impact on your desired outcomes, they naturally become the Key Performance Indicators (KPIs) you should be looking at.

This will help ensure that management is measuring what's important: the outputs and the outcomes of the organization.

There are two ways to measure your outputs and outcomes:

1. Ask your program managers to measure the efficacy of each program *(non-financial metrics)*
2. Set up your accounting system to understand the economics of each service unit *(financial metrics)*

>>> In order to measure your outputs, you should understand the unit economics of your programs, clients and services.

In a shelter, a primary **output** is completing a series of six vocational training programs.

The **outcome** is the number of people who got jobs because of the training, which is the positive result when both the counseling and the training series have been completed.

Program Economics

Program economics is the relationship between Revenue, Costs and Gross Profit for each program. **Gross Profit is the most important concept in understanding unit economics. This is what drives your organization's cash flow.**

When you have visibility into the economics of your programs, then you can measure the value of each program output. That allows you to see an ROI for every dollar spent and compare the financial viability of all programs.

Gross Profit is simple math:

- What income, if any, do you earn from providing your services?
- How much does it cost to deliver those services?
- Gross profit is how much you earn minus how much it cost.

>>> In step 4, we'll show how to set up your accounting system to deliver program economics.

Client & Service Economics

Once you've calculated the economics of each program, divide those totals by the number of clients served in each program to get revenue, cost, and gross profit or loss per client. This shows how much was earned, how much it costs and your profit or loss for each client. Those are your client economics.

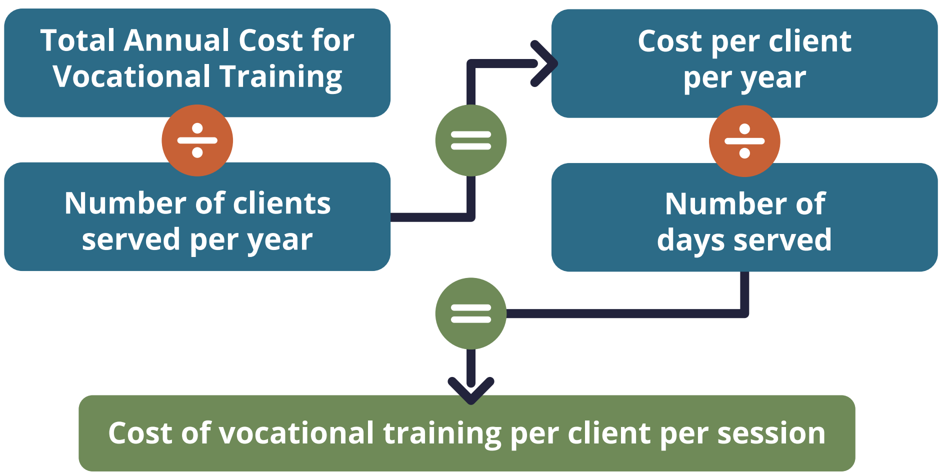
One of the biggest reasons why nonprofits have cash flow problems is the true costs to deliver services are higher than they think. When that happens, a popular program can cause economic stress.

Client economics will also answer the questions your donors are asking: "How will you use my money?", "How will my gift make a difference in the world?" **Sharing client and service economics with your donors is a powerful way to raise more money.**

Client economics allows you to measure financial effectiveness and compare each program to see which provides the most effective use of limited budgets.

Every organization should define its "service units." Without understanding the revenue and cost of each service unit, you can't make data-driven decisions about which services are the most effective.

For example, how much does it cost the shelter to provide six career counseling sessions? That's simple if you know your program economics. Just take the total revenue and costs for the counseling program for the last year and divide it by the number of sessions provided during that period.



Step 4
REPORTS / KPIs

Design a Management Reporting System

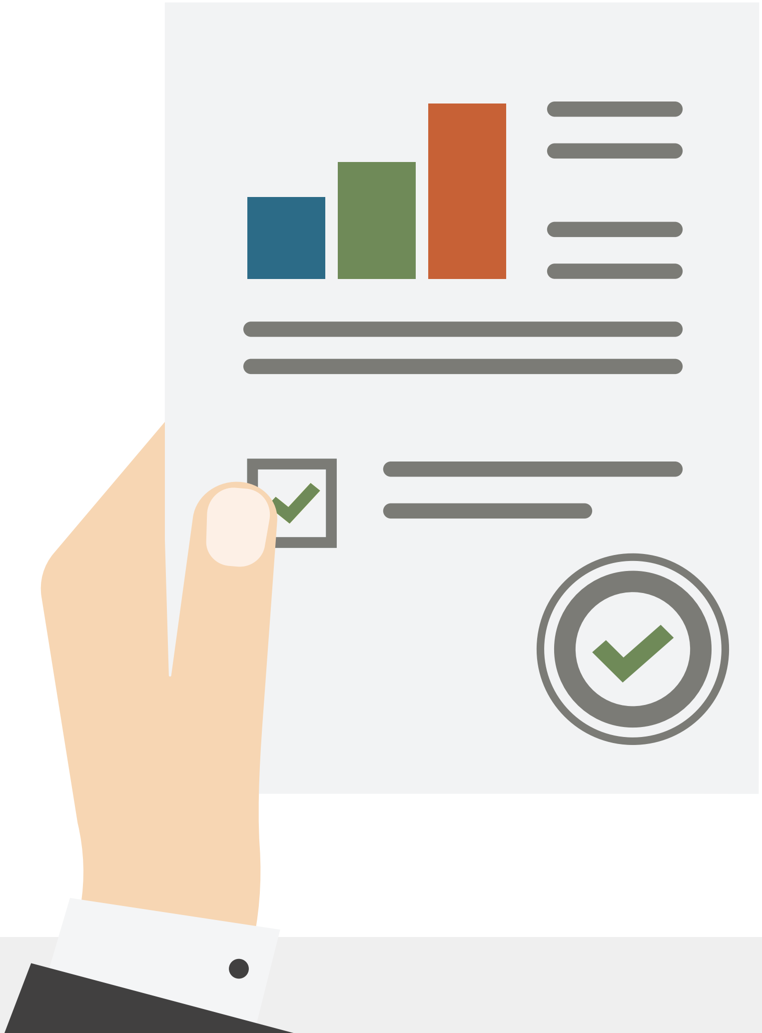
Designing management reports so everyone, including the board, staff leadership and program managers, can focus on outputs, will help drive more positive outcomes.

Every nonprofit has limited dollars. The need is always greater than your ability to meet that need. So you have to squeeze everything you can out of limited resources. You can maximize your effectiveness by figuring out how to make decisions that drive the most outcomes per dollar.

This step is about getting the financial metrics to help you make data-driven decisions that drive better outcomes for your programs.

Nonprofits typically track financial performance through financial statements: the Statement of Financial Position and the Statement of Functional Activities. But these only show historical results and are not actionable. They don't provide insights into how those results were achieved, what corrective action might need to be taken to improve them, or, if the numbers are good, what efforts need to be expanded to keep achieving great results.

When you start with the decisions that improve quality outcomes (Step 2)--then get your list of outputs, product and services that will drive outcomes (Step 3)--that's the starting point for the data you want at your fingertips (Step 4)--Now you are ready to design your management reports.



Trending and Trailing Twelve Months (TTM)

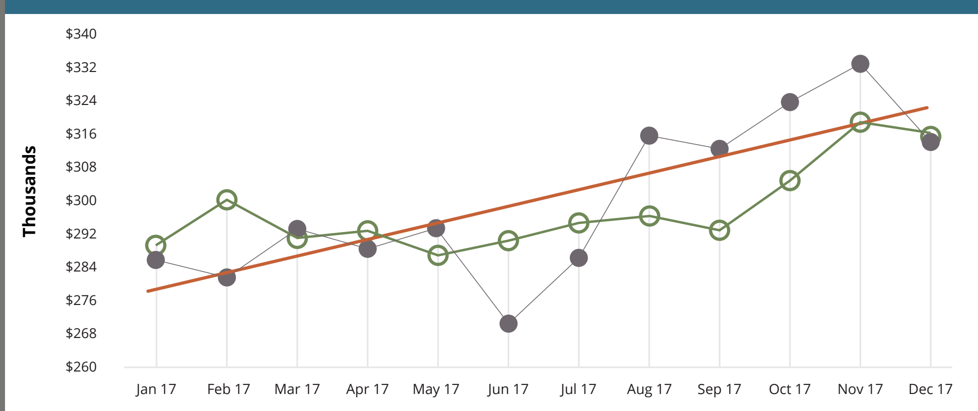
In addition to looking at actual monthly results, you also want to study the trends of your key economic drivers.

We recommend you start with an XY chart that shows actual results versus the budget and trend line. This gives you a snapshot of everything you need to know to ensure that metric is going in the right direction.

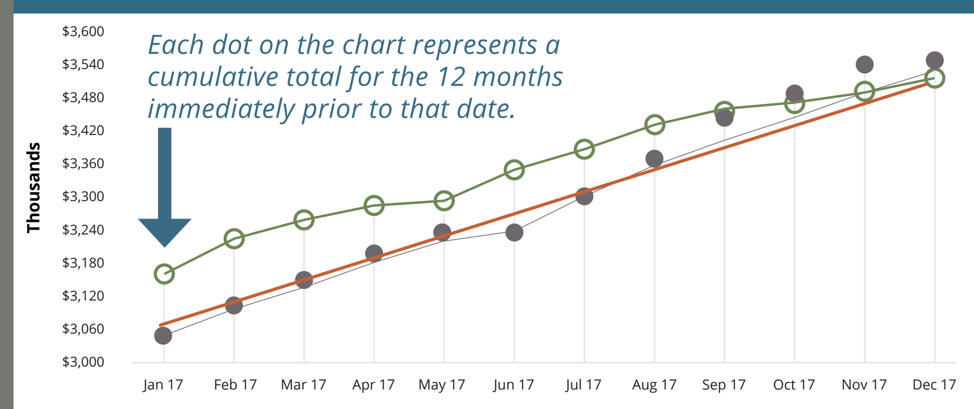
In addition to a monthly chart, you should also view those actual results on a Trailing Twelve Months (TTM) chart. TTM is an XY chart where each dot on the chart represents the total for the previous 12 months. Because TTM shows a trend over two years, a TTM chart eliminates seasonality in an organization. It's the best way to see your true results.

You should use TTM for any metric you want at your fingertips. A nonprofit should study trends of the best outcomes and the best economics. The best Development Officers use a combination of program outcomes and unit economics to show donors an ROI on their gift to raise more money.

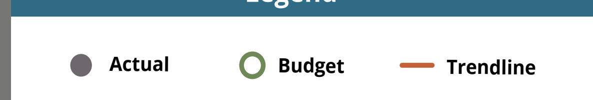
Gross Revenue



Gross Revenue TTM



Legend



Calculate Gross Profit

> Chart of Accounts Change #1

To see Gross Profit, your chart of accounts needs to include Cost of Services (COS) accounts (called COGS in a for-profit). As we saw in Step 3, those are accounts that record the expenses that were “directly” related to costs of delivering each of your programs and services.

COS Accounts allows you to see gross profit broken down into programs, clients, and services. Every accounting system can be set up to show gross profit by department and program. In QuickBooks®, this would usually be done using Classes and Sub-classes.

All the other expenses that are not “directly” related to service clients are “Indirect” or overhead expenses. These costs are shown below gross profit or loss on your P&Ls.

+ Program Income
Direct Labor
Direct Materials
- Cost of Services (COS)
= Gross Profit or Loss
- Indirect Expenses (Overhead)
= Net Operating Income or Loss

Don’t wait until you have all your ducks in a row and your systems and data are perfect, to start tracking KPIs. Practice “raging incrementalism.”

Once you start reviewing management reports, things will immediately change. Just getting started will change how managers think and act, because what management monitors gets done.

Move Development Income and Expenses Down Under

> Chart of Accounts Change #2

In our recommended chart of accounts, program income doesn't include money raised from donors. So, where does it go?

We suggest moving development income and expense accounts below your "Net Operating Income" accounts. In QuickBooks®, use "Other Income" and "Other Expense" account types for the Development Programs. This makes it easy to see Development Income and Expenses together, so you can measure the ROI on your Development programs.

This also lets you see the net income or loss of each Program including any allocated overhead, before Development Income and Expense. You can see the economics of each program before any income is raised from Development. Your program losses are a good starting point for all of your Development goals.

Putting Development Income and Expenses side by side like this also allows you to see the profitability of each Development activity. That makes it easy to see which fundraisers provide the best ROI. This format also tells you which programs and services bring in the most and contribute the most to the fundraising goal.

A Caring NonProfit P&L By Class		Programs					Cost Centers	
	Total	Day Habilitation Services	Home Community Services	Residential Services	Transportation	Thrift Store	Development	Administration
+ Program Income	X	X	X	X	X	X		
Direct Labor	X	X	X	X	X	X		
Direct Materials	X	X	X	X	X	X		
- Cost of Services (COS)	X	X	X	X	X	X		
= Gross Profit or Loss	X	X	X	X	X	X		
- Indirect Expenses (Overhead)	X	X	X	X	X	X	X	X
= Net Operating Income or Loss	X	X	X	X	X	X	X	X
+ Development Income	X	X	X	X	X		X	
Restricted Grants	X	X	X	X	X		X	
Unrestricted Grants	X	X	X	X	X		X	
- Development Expense	X						X	
= Net Development Profit or Loss	X	X	X	X	X		X	
= Net Income or Loss	X	X	X	X	X	X	X	X

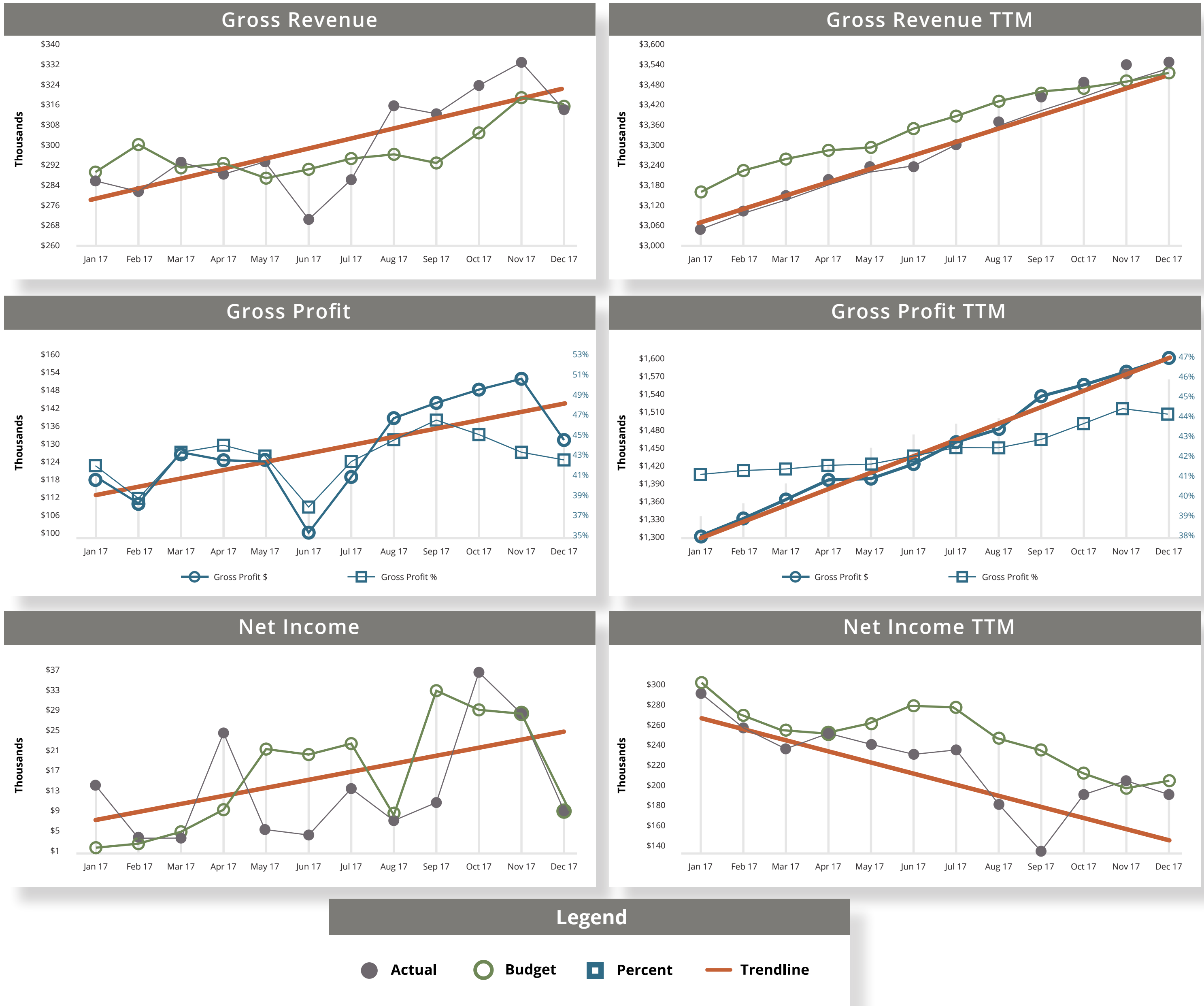
THE ONE-PAGE "ORGANIZATION" SCORECARD

Once your accounting system has been set up to show income, direct expenses and gross profit or loss for each program, client and service, then what?

Create an organization-wide view of finances to help you see the big picture. You do that by developing a one-page "Organization" Scorecard that shows the trends for revenue, gross profit and net income for the whole organization – giving you the overall economic health of the organization.

Are things getting better, getting worse, or staying the same? This will set up the context for the rest of the reports.

If you share this one-page scorecard with everyone, it will helo align the entire organization.



PROFIT & LOSS BY PROGRAM

Program Income includes the money earned from delivering your products or services.

Once you are tracking gross profit at an organization-wide level, the next step is to drill down to see gross profit at the program level. This will show you how each program contributes to cash flow and what funding is required for each program.

If you use Quickbooks®, you can set up each Program as a Class and view it on a Profit & Loss by Class report.

The board will love this report. It allows them to stay focused on the program economics at a macro level.

P&L By Programs		Programs				
	Total	Day Habilitation	Home Community Services	Residential	Transportation	Thrift Store
+ Program Income	X					
Direct Labor	X	X	X	X	X	X
Direct Materials	X	X	X	X	X	X
- Cost of Services (COS)	X	X	X	X	X	X
= Gross Profit or Loss	X	X	X	X	X	X
- Indirect Expenses (Overhead)	X	X	X	X	X	X
= Net Operating Income or Loss	X	X	X	X	X	X

PROFIT & LOSS BY SERVICE UNIT

In Step 3, we identified the Outputs that create better Outcomes. By tracking the direct costs of those services, you can run a Profit & Loss by Service (QuickBooks® calls it "Item Profitability") report to see revenue and costs for each service unit or Output you provide.

Service unit economics allows you to measure financial effectiveness across each program and compare programs to see which are most effectively using your funds.

Knowing your desired outcomes, and how much it costs to get there, allows you to show an ROI and raise more money.

The Development office can also use the P&L by service report to show a donor the ROI from their contribution.

For example, the Shelter wanted to show donors how much it costs to provide six counseling sessions because they believe that's how many sessions it takes to get a first job, which is the best way to break the cycle of homelessness.

They took the total cost of the counseling program, divided it by the number of counseling sessions held, to get a cost per counseling session. This allowed them to ask donors to pay for a bundle of six vocational trainings. This engaged the donors because they were able to understand how their contribution would help break the cycle of homelessness.

		Residential Program			
P&L By Service Unit	**Total**	**Housing**	**Meals**	**Nursing**	**Fitness**
+ Program Income	X	X	X	X	X
Direct Labor	X	X	X	X	X
Direct Materials	X	X	X	X	X
- Cost of Services (COS)	X	X	X	X	X
= Gross Profit or Loss	X	X	X	X	X
- Indirect Expenses (Overhead)	X	X	X	X	X
= Net Operating Income or Loss	X	X	X	X	X

PROFIT & LOSS BY CLIENT

Once you can track the direct costs of each program and can see profit or loss (P&L) by program, it's easy to calculate the same thing for each client. There are two ways to do this:

1. The best run service organizations, track the time of their people. It's the only way you can see the "true" costs of the services you deliver.

   QuickBooks® users who track time can use Intuit® payroll, to automatically allocate their labor cost to programs and clients when you run payroll. That allows you to see actual labor costs for each program, client or service.

2. If you don't track time, you can get an average P&L by client by taking your P&L by program and dividing by the number of clients served. That's a great way to understand your client economics and show the funding needed to run each program.

>>> Take any of your financial metrics and divide by the number of clients to get your individual client economics.

Many nonprofits wonder why they have cash flow problems despite having a steady flow of clients. The biggest reason is that their client gross profit isn't high enough to cover costs, and each additional client makes their cash flow worse. If you get paid for your services, you can use the P&L by program, client, and service to look at pricing and make sure you're covering all of your costs. Understanding your true costs will help you understand your cash flow.

DEVELOPMENT P&L

The Development Office should have its own P&L - one that shows profitability by development activity and another that shows unit economics for each program. This will help Development build a measureable case statement and raise more money.

To calculate client economics, divide program totals by the number of clients per program to get:

- *Revenue Per Client*
- *Cost Per Client*
- *Gross Profit or (Loss) Per Client*

The Development P&L shows:

How much each program costs and earns from operations.

How much development needs to raise to keep those programs going.

How much each program contributes to the fundraising goals.

		Development Activities			
Development P&L	**Organization Total**	**Major Donors**	**Direct Mail**	**Foundations**	**Events**
Development					
+ Development Income	X	X	X	X	X
Restricted Grants	X	X		X	
Unrestricted Grants	X	X	X	X	X
- Development Expense	X	X	X	X	X
= Net Development Profit or Loss	X	X	X	X	X
= Net Income or Loss	X	X	X	X	X

Answering the core program decisions.

Once you have a macro view of the organization, you can drill down into the financial metrics for each program unit and combine them with the non-financial metrics to measure the efficacy of each program. That gives you the actionable financial intelligence to answer the questions we raised in the **Core Program Decision Matrix (Step 2)**:

PROGRAMS: Which programs do you stop, start, or continue?

STAFF: When should you hire staff?

CLIENTS: Who should you serve – what defines the right client?

DEVELOPMENT: How do you get the biggest ROI from development?

In the following pages, we identify which KPIs and reports will help you make data-driven decisions to answer these questions.

Which Programs Do You Stop, Start, or Continue?

Step 5
DECISIONS

One of your most important decisions is which programs should get your limited resources?

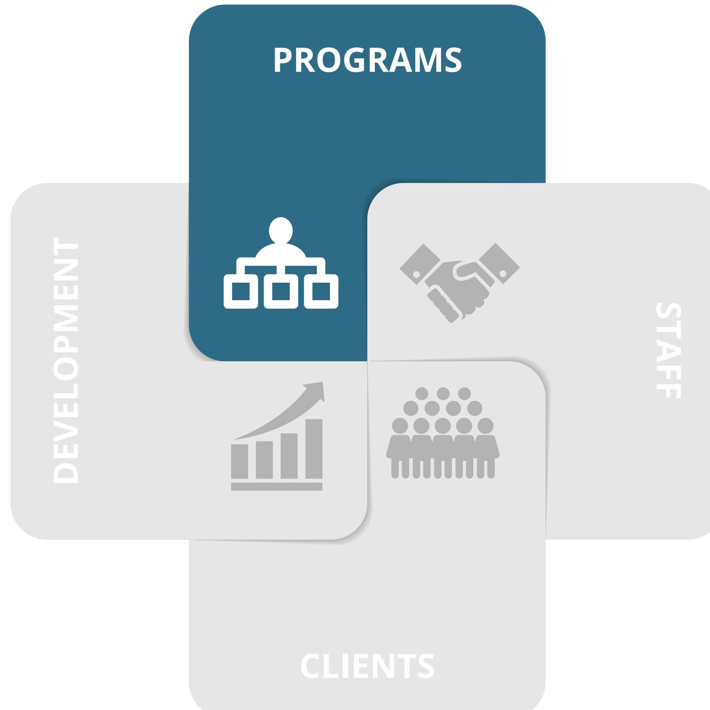
There are the three factors to consider:

Outcomes: Ask your program managers to define which of your programs generate the most effective outputs; those that directly create outcomes that impact your mission. These are usually non-financial metrics e.g. number of beds filled, number of vocational classes taken, etc.

Economics: Review the Profit & Loss by program report and rank the programs with the best economics. Which have the greatest profits? Which have the greatest Net Operating Income or Loss? You'll want to rank them on their bottom lines as one key metric for decision making.

> If they're profitable and are creating great outcomes, then you will likely want to continue, and possibly start additional similar programs.
>
> If they rank low on their economics and have a net operating loss, you will need to understand why. You'll have to decide whether the outcomes offset the financial costs. If not, then you may look to stop these programs, or re-evaluate.

Development: Finally, look at the development income raised for each program to identify which are most attractive to donors and contribute the most to your fundraising goals and cash flow. The Development Profit & Loss by Program reports show which programs garner the most interest from founders/contributors.



Combine the number of outputs and gross profit per output to see where you get the most outcomes for your buck.

When Should You Hire New Staff?

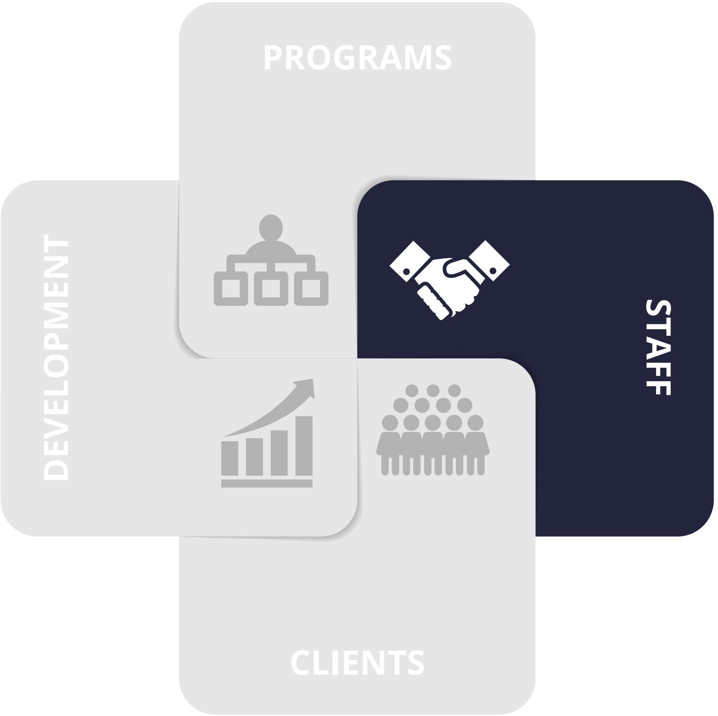
Step 5
DECISIONS

If you want to create a new position or hire a new staff person, it's usually because you are expanding, or expect to create more work than the current staff can handle.

Before you add any new staff:

- Review utilization percentage of your program staff. That means studying how much of their time is directly related to working on outputs that drive outcomes. It's a lot cheaper to streamline an inefficient operation than it is to throw people at the work. Look at how your staff spends their time to see if you can drive more efficiency in your operations before you add more headcount.

- Forecast the number of service units you expect to provide, and the time needed per unit, to support any new headcount request. Then give your Development Office the number of outputs and outcomes you expect from that position so they can build a case and find a donor to fund that position.



It's easier to raise money if you have something tangible to show a donor. If you show the number of outputs and expected outcomes a new staff person can deliver, you will be more likely to raise those funds. You'll avoid cash flow problems by having the money committed before you add new headcount.

Who Should You Serve – What Defines the Right Client?

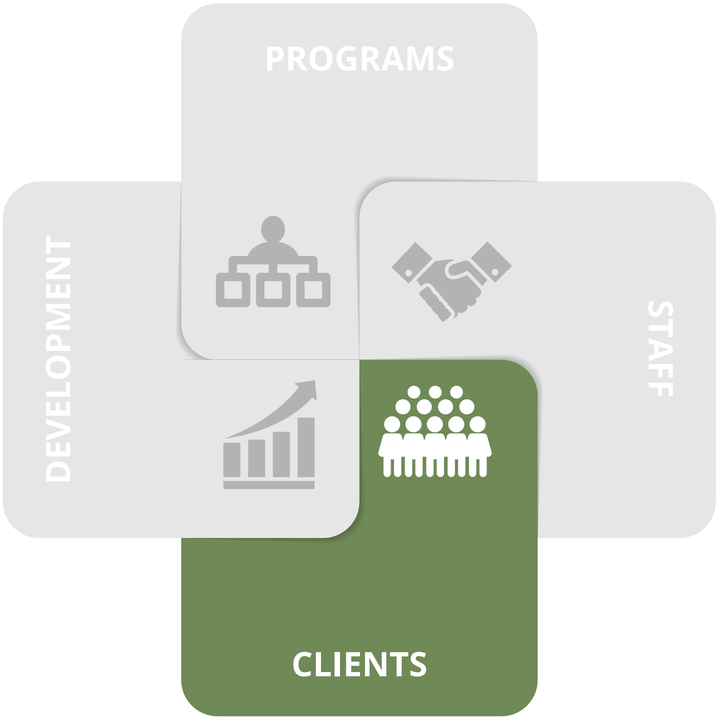
Step 5
DECISIONS

Look at the same reports you analyzed for your programs to determine the right client mix:

- Which clients have the most positive outcomes?
- Which clients are provided with the most services and, as a result, the most outcomes per dollar spent or dollar raised?
- Which clients contribute the most to the cash flow of the organization?

This will give you the financial intelligence to evaluate the ROI of each of your programs and clients.

>>> Unless your mission is to serve everyone, make sure you are only servicing the right clients. If you have clients who are not likely to have a positive outcome, you need to consider replacing them with clients who are better suited for your programs. That way you can increase the number of outcomes with the same payroll dollars.



A special needs provider had a mission to help all adults with learning disabilities. As they grew, they realized low functioning clients required more resources than they could afford and it took away from delivering positive outcomes for the higher functioning clients. A rapid growth in clients they couldn't afford to serve almost caused the agency to fold. They made a policy decision to change the mission to serve clients who would have the most positive outcomes.

Which Development Activities Generate the Greatest ROI?

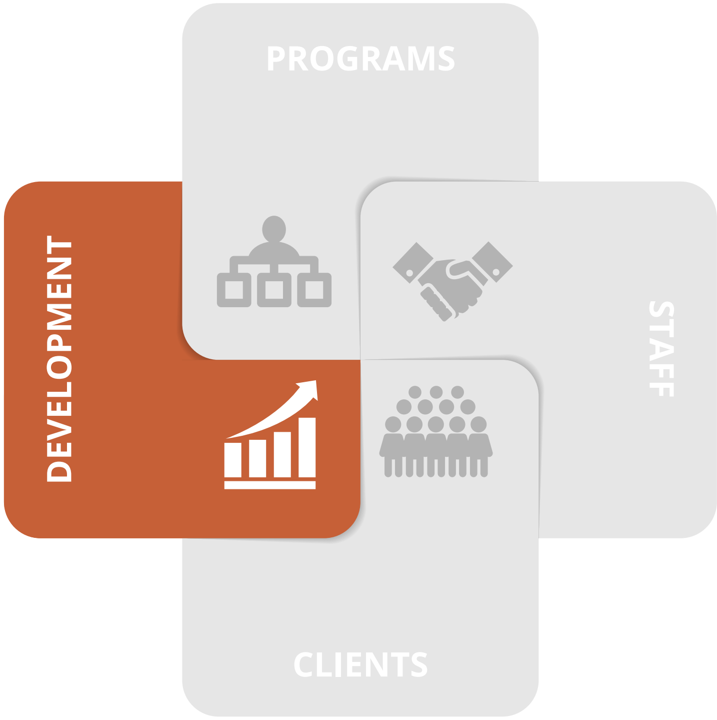
Step 5
DECISIONS

To the chagrin of many directors of development, the easiest department to measure Return On Investment is Development. If you track income and expense by program, you can also run a Profit & Loss by activity for the Development activities just like you do for Programs. That allows you to figure out which Development activities you should Stop, Start, or Continue.

Remember, it is particularly important to include fully loaded Development staff costs because, when you allocate the cost of their staff time, many so-called "fundraisers" actually lose money.

The P&L by Program can also show which programs are the most effective in helping raise money. **By arming your development team with this financial data, they'll be able to:**

- Increase cash flow by focusing their energy on the Development programs that generate the most income.
- Build a case for larger gifts and grants by showing donors how their investment will impact programs and clients.



Running a P&L by Development activity will reveal the real economics and allow you to focus on those with the highest return. For most donor driven organizations, major donor personal solicitation is the highest ROI fundraising program and events are the lowest because events often eat the most time for the development staff.

Conclusion

To make Data-Driven Decisions in a nonprofit organization, you need to have financial intelligence at your fingertips that will help you take action. It's about making a decision with the best available information that will allow you to increase outputs and improve outcomes.

By building a management reporting system that provides data to drive better decisions, you're ensuring that your programs are optimized and your development dollars are getting the best ROI possible.

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