Understanding Fundraising's Costs

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Fundraising costs and overhead have often been a topic of controversy for investors and contrarians alike. I haven't heard as much lately; it seems we've had more pressing concerns! It's tempting to leave well enough alone and yet, I prefer encouraging continued dialogue and a lifelong pursuit of knowledge.

Donors have every right to ask a charity what percentage of their gift goes to programs and services but be wary of a simple answer! Unfortunately, some charities have perpetuated the myth that low fundraising costs implies they're more efficient than their 'competition's' higher overhead...but wait. Are they comparing an apple to an apple, an Empire to a Russet or some other fruit altogether?

There will always be a cost to doing good — or bad — business; it's the responsibility of staff, boards and investors to differentiate between the two. What we should all ask is whether we are more concerned about low costs at the expense of getting results that make a difference in the lives of those we serve. If so, one needs only to Google "*The Nonprofit Starvation Cycle*" to discover how self-defeating that mindset is.

Fundraising Guidance

Canada Revenue Agency's most recent *Fundraising Guidance* was issued in 2012 and yet based on continued reporting errors, the number of charity leaders who've read or follow it thoroughly is questionable. The *Fundraising Guidance* is necessary reading...and given its

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dry content, I've kiddingly suggested it is particularly useful for those with insomnia. Regardless of whether it's entertaining or not, CRA is the federal regulatory body for registered charities in Canada so it is advisable to pay attention!

Section 82 of CRA's *Fundraising Guidance* introduces "High fundraising expense ratio" (a self-assessment formula that helps registered charities — and donors who review Form 3010 Registered Charity Information Returns — to calculate reasonable cost ratios based on adding Lines 4500-receipted donations and 4630-non-receipted fundraising revenues and dividing that sum by Line 5020-fundraising expenses).

But if charity leaders aren't following the Guidance, are they accurately counting all their fundraising expenses?

Aside from whether charities count costs consistently, CRA, along with many informed major donors and funders, recognize that numerous factors contribute to the cost of fund development, including the:

- age or maturity of the organization and its development department (if there is one)
- size of the charity and its overall and fundraising budget
- geographic location and reach of its community
- sophistication and effectiveness of the charity's infrastructure and systems
- popularity of the cause (or lack thereof)
- methods used
- sources of fundraised income
- fundraising skills of staff
- strength and involvement of the organization's board and senior staff
- use of volunteers
- averaging costs (over a period of three to five years).

The development profession has reasonable fundraising cost guidelines; in extremes, these can range from $1.50 to have a new donor give $1.00 to $0.10 - $0.20 to renew their support. In the case of young, small, unpopular, remote or even naive charities, are those costs acknowledged by their charitable boards when approving a budget? For instance, the acquisition of a donor is one of the most expensive aspects of raising money. So, rather than being horrified that efforts cost 1.5 times that of revenues raised, ask whether this charity is equipped to foster that newly acquired relationship to ensure they "amortize" that expenditure over the lifetime value of the donor (LTV).

It's up to us as investors to decide whether we're asking the right questions or, are we being penny wise and pound foolish? Do we care more about low costs or how much the charity accomplishes? What appears to be a simple way to assess efficiency may totally overlook fundraising and organizational effectiveness.

In a recent Association of Fundraising Professionals' blog entitled "*3 Impact Metrics Nonprofits Aren't Using (But Really Should)*" they recommend collecting and analyzing a core set of data, including:

- Cost per Successful Outcome (measuring the impact of the charity's services and programs)
- Constituent Retention (donors, clients, volunteers, staff, partners)
- Fundraising Return on Investment (for a more comprehensive, decision-informing picture of the impact and effectiveness of various methods)

And asking the following questions:

- What was done?
- How well was it done?
- How are participants better off?

Data gathering is cumbersome but if systems are implemented in advance and charities build in measures at the outset, results are easier to extract and report. The biggest challenge in under-resourced charities is building the board and chief executive's knowledge so they are on more equal footing with their larger charity counterparts.

There is no simple answer to fundraising and overhead costs. I mentioned contrarians in my opening because I wonder if the loudest voices actually donate to charities at all?! I encourage all donors to ask thoughtful questions and understand our decisions are driven by both heart and head; if we're passionate about a cause, our choice might seem less rational. So ask yourself…do I care enough about the work of this group to help them make a difference? Then, see if they report back their results, between their requests for support…or do you feel merely like an ATM? Your philanthropic choices are yours to make and asking the *right* questions will always help charities grow. Thanks for your generosity.

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