
RETURN ON INVESTMENT

ENHANCING YOUR EVALUATION THROUGH RETURN ON INVESTMENT ANALYSIS



WHO ARE WE?



Emily Krauser



Jennifer Bellville



THOMAS P. MILLER & ASSOCIATES

WHAT'S THE PLAN?

- ROI Introduction
- ROI Methodology Examples
- ROI Methodology Activity





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Transcript



BUSINESS

Investor Hindsight: Lego Sets Are Better Than Gold

December 28, 2015 · 7:02 AM ET

Heard on [Morning Edition](#)

Looking over investment opportunities since the millennium, *The Telegraph* newspaper reports that gold brought in an annual average return of 9.5 percent. Lego sets returned an average of 12 percent.

Transcript

RENEE MONTAGNE, HOST:

Good morning. I'm Renee Montagne. Looking over investment opportunities since the millennium, some humble plastic building blocks have beat gold. The Telegraph reports that gold brought in an annual average return of nine and a half percent. Lego sets returned an average of 12 percent. The Lego set that shot up the most - a mint-condition model hotel called Cafe Corner would offer a return on investment of more than 2,000 percent. It's MORNING EDITION.

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<http://www.npr.org/2015/12/28/461247396/investor-hindsight-lego-sets-are-better-than-gold>

Actually Pay Off?

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WHAT IS ROI?

- A **financial metric** used to indicate the **value of service(s)** a program provides

$$= (\text{Net Profit} / \text{Cost of Investment}) \times 100$$

WHY MIGHT ROI MATTER?

- Being able to determine **results** of a program
 - Knowing where to **best spend** time & resources
 - Understanding **what's working** well
 - Demonstrating ROI when **pursuing funding** for programs
-



JACQUES KNEW THAT TODAY WOULD BE HIS GREATEST CHALLENGE YET.

STEPS TO PREPARE FOR AN ROI ANALYSIS

1. Identify direct and indirect **costs** of program implementation
2. Determine direct and indirect **benefits *that are attributable to the program***
3. Determine **financial proxies** where appropriate
4. Set **clear boundaries** for the analysis; what issues are most important to focus on
5. Set up **data gathering tools**

Gather and Analyze the Data!

TYPES OF ROI ANALYSES

Cost Analyses – The costs of a program are added up and compared to something non-monetary, such as:

- the number of people affected,
- perceived importance/impact of a program, or
- units of increased outcome.

Cost Benefit/Savings Analyses – The benefits of a program are monetized and its costs are either subtracted, made into a percentage, or made into a ratio.

COST ANALYSIS

Questions that can be answered:

- **Distribution** – To what pieces of a project or organization is the most funding being allocated?
 - **Per Unit** – How much does a service cost per unit or per head? Does that differ from program to program?
 - **Allocation** – Is the most money being spent on the most impactful things?
 - **Effectiveness** – How much does the program cost per unit change in the final outcome?
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COST ANALYSIS

Pros

- Improves understanding of program operation
- Doesn't require quantifying the outcome using dollars

Cons

- It doesn't make sense to talk about the cost if you don't already know the program is providing a benefit
- You must choose just one outcome to measure cost against
- The least expensive alternative is not always the best alternative

EXAMPLE – DOLLARS PER MEAL

No Kid Hungry and their partners in the state of Maryland implemented an aggressive summer meals expansion, opening **new meal programs in underserved areas** and helping low-income families find free summer programs for their children. As a result, the state saw a dramatic increase in the number of meals served to kids.

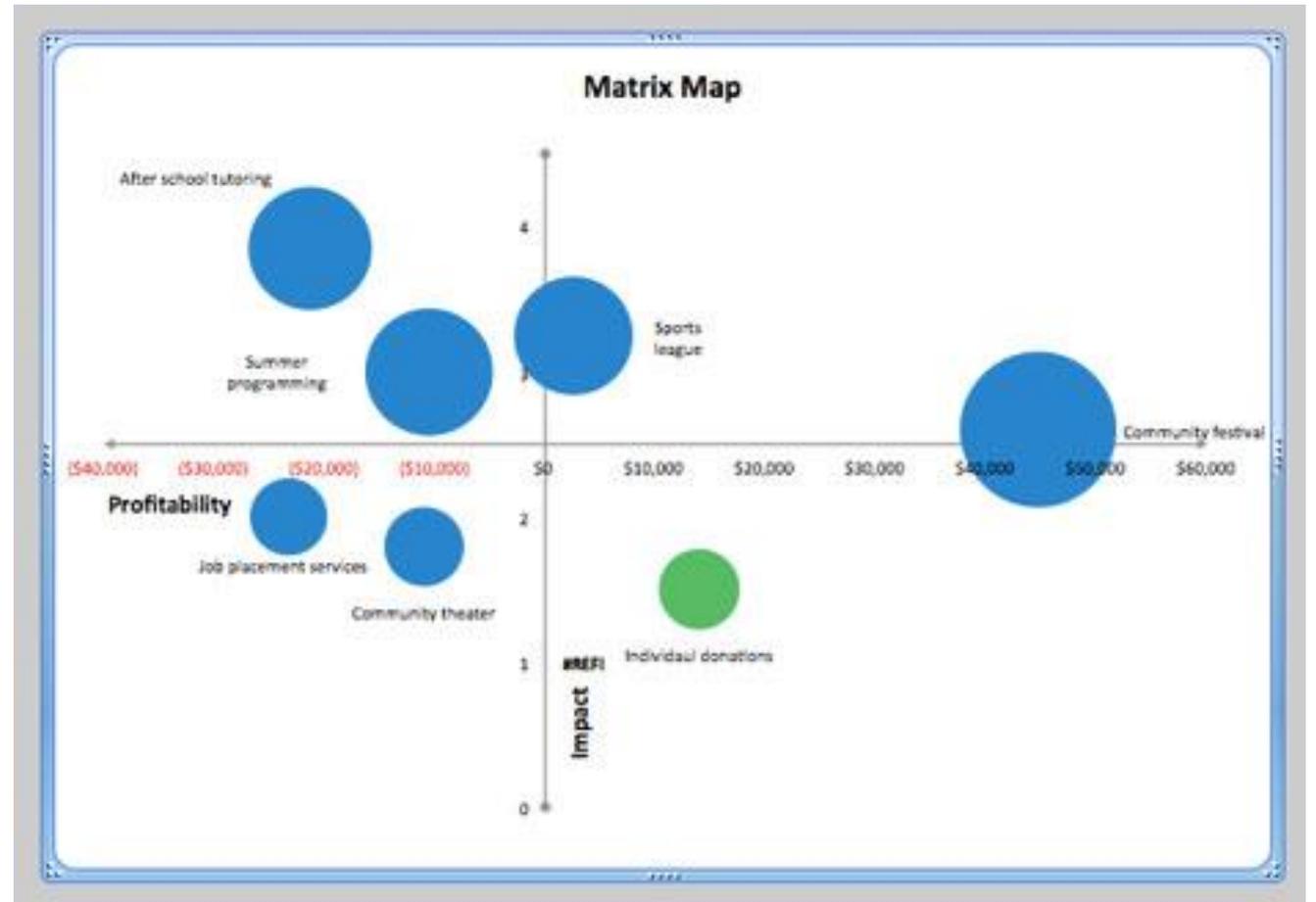
212,000 more meals were served over just one summer – meaning the **return on investment was more than 10 meals for every \$1 invested.**



EXAMPLE – MATRIX MAPPING

Four step process:

- **Identify** programs or lines of business
- **Assess** the mission impact of each of those lines of service. Use your own criteria (survey?).
- **Determine** the expense and profitability of each program
- **Map** the results



Source: blueavocado.org

COST BENEFIT/SAVINGS ANALYSIS

Questions that can be answered:

- What is a program's benefit to society compared to its cost to implement?
 - Do the program's benefits outweigh its costs?
 - What is the rate of return on a program?
 - How much money does a program save taxpayers/society/community in the long run?
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COST BENEFIT/SAVINGS ANALYSIS

Pros

- Considers *all* benefits, direct and indirect, that are quantifiable

Cons

- Financial impact \neq mission impact
- Not all benefits can be monetized
- The more you try to monetize benefits, the more expensive the analysis becomes

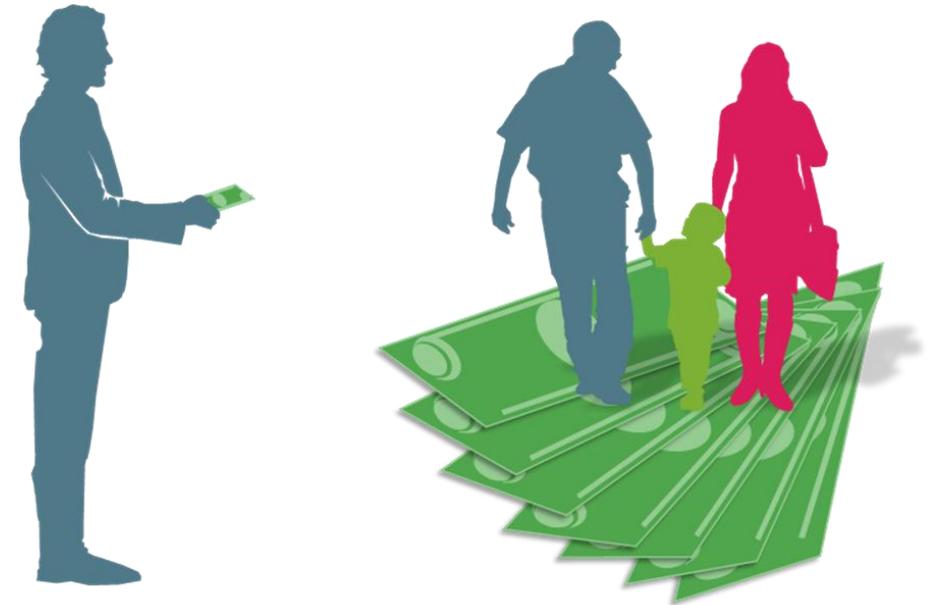
EXAMPLE – COST SAVINGS ANALYSIS

A nonprofit spends \$200,000 providing financial counseling to 1,500 struggling families; that's about \$133/family.

A study of past participants concludes that they saved an average of \$217 in fees and \$724 in interest by participating in the program.

Therefore, **every dollar spent by the program saves a family \$7.08** in fees and interest.

Source: Houston Small Business Chronicle



EXAMPLE – ECONOMIC IMPACT ANALYSIS

Five step process:

1. **Attain** organizational spending data, including personnel costs
2. **Align** organizational spending with specific economic sectors
3. **Analyze** the organization's spending in those sectors using an economic modeling software that calculates multiplier effects
4. **Fine tune** the model where necessary
5. **Interpret** findings



METHODOLOGY ACTIVITY

- **Form groups** of 3-5 people (remember to introduce yourselves)
- Choose **one case study** topic (your own project or our example one)
- Choose **one methodology** you would like to explore
- **Discuss** how your chosen methodology would work within the case study

Use the back of the handout to help guide your conversations

FULL GROUP DISCUSSION

- Group discussion **sharing**
 - **What was the case study?**
 - **What methodology did you choose?**
 - **Thoughts from your methodology discussion?**

 - What **questions** came up during your conversations? Or questions about ROI?
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SOME OF OUR FAVORITE ARTICLES ON ROI

- <https://docs.gatesfoundation.org/Documents/WWL-report-measuring-estimating-social-value-creation.pdf>
- https://ssir.org/articles/entry/how_nonprofit_economic_value_creates_new_capital_sources
- https://ssir.org/articles/entry/calculated_impact
- <http://home.gwu.edu/~scellini/CelliniKee21.pdf>
- <https://www.bridgespan.org/insights/library/pay-what-it-takes/nonprofit-cost-analysis-introduction>

THANK YOU!

EMILY KRAUSER

| ekrauser@tpma-inc.com

JENNIFER BELLVILLE

| jbelleville@tpma-inc.com

