

Nell Edgington



Craft a Case for Investment

**A Social Velocity
Step-By-Step Guide**

No. 3

Craft a Case for Investment

Nell Edgington

A Social Velocity Step-By-Step Guide, No. 3

Social Velocity | P.O. Box 300543, Austin, TX 78703 | (512) 694-7235 | www.socialvelocity.net

2013 © Social Velocity. This guide is copyrighted by Social Velocity and may not be reproduced, duplicated, or distributed.

Why Create a Case for Investment?

A frustrated nonprofit executive director wrote to the Social Velocity blog a few years back fed up with the fact that donors in her community, reeling from the economic recession, did not understand how urgently she needed their support:

“Here’s my problem: whenever I tell donors how desperate we are, I get a sob story about how desperate THEY are...It’s obvious these people have money, they just don’t want to share it with us.”

-A Nonprofit Executive Director

What this executive director failed to realize, however, is that the burden is on her to connect the dots for donors. It is up to nonprofit leaders to articulate, in a compelling, inspiring way how their nonprofit is creating a solution to a critically important social problem, and why people should care about and invest in that solution.

A Case for Investment can help you do just that.

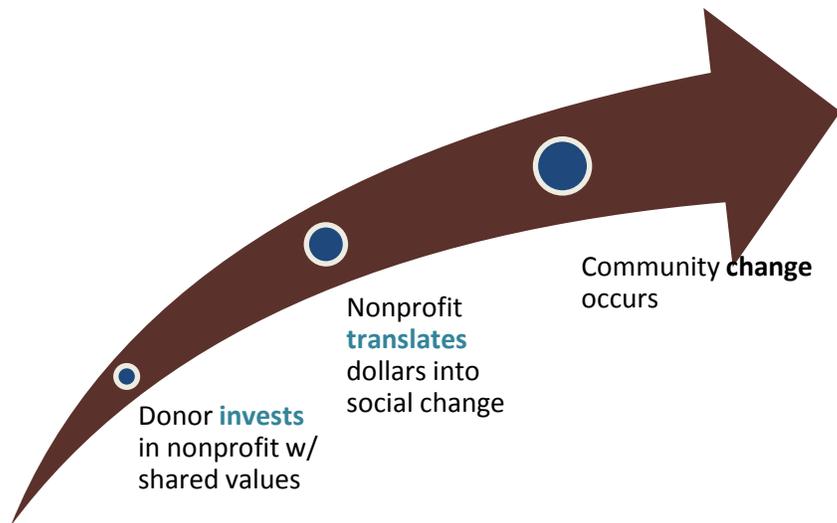
Now more than ever nonprofits are struggling for funding amid growing competition and diminishing available dollars. A weak economy coupled with a proliferation in recent years of startup nonprofits, has made it harder and harder to stand out and recruit donors. At the same time, the growing trends in social entrepreneurship, performance measurement and impact investing have made donors more interested in understanding the social return their investment in a nonprofit will bring.

These days, donors, especially major donors, are less likely to give to a nonprofit because the organization “does good work” and more likely to give because the organization has demonstrated how they create a solution to a social problem the donor cares about.

This is how it works:

1. A donor invests in a nonprofit that shares their values and has identified a social problem that is equally important to the donor
2. The nonprofit translates that investment into a positive change to that social problem.
3. Community change occurs.

It looks like this:



So it is up to a nonprofit to find donors who recognize a similar social problem and then convince those donors that their nonprofit is the one who can bring about change to that social problem.

Those nonprofits that want to continue to attract and grow philanthropic investment must create a compelling, thoughtful argument for why a donor should give to them. This argument is called a “Case for Investment.” Driven by a thoughtful combination of data and emotion, a good Case for Investment can help a nonprofit communicate and connect with their target donors much more effectively.

How to Use This Guide

This guide is organized into the seven sections of a Case for Investment. In each section of this guide there is a series of questions, which you will answer. Your answers to these questions become the basis for your final Case for Investment, which should be no more than 2-3 pages long.

It is worth noting that the argument you are making in your Case for Investment is intimately connected to your nonprofit's Theory of Change. So if you don't already have a Theory of Change you might consider creating one with your board and staff while you work on your Case for Investment.

To begin creating your Case for Investment, open a word document and create eight sections titled as below. Write your answers to the questions in a narrative format, with bullets as appropriate. You are ultimately making an argument with your case for investment, so in the end, your Case for Investment should have a logical flow, as opposed to a series of answers to questions.

Your nonprofit's Case for Investment cannot be written in just a day, by one or two people. You will need to get feedback and insight from staff and board. You also will need to gather some data for certain sections to make your Case for Investment stronger. This work will take time, so it may be a few weeks or months before you have a final Case for Investment that is compelling, convincing and agreed upon by the organization as a whole.

Because no inspirational written document ever came out of a committee, only 1-3 people (at most) should be charged with writing the Case for Investment. However, these people will need to solicit feedback, insight and information from others along the way. The writers of the Case for Investment should go through this Step-by-Step Guide section by section, writing drafts of each section as they go, researching necessary data, feedback and insights.

Once the writing team is happy with their draft Case for Investment, your board and staff should review it and offer edits and feedback. While it is critical to get the organization as a whole invested in the Case for Investment, it is equally critical not to water down a Case for Investment by being too focused on building consensus. Make sure that the final Case for Investment is compelling, inspirational, exciting and energizing.

A nonprofit may never use a Case for Investment in its entirety, rather it serves as the fundamental building block from which all donor communications, marketing materials, grant proposals, website language, etc. is derived.

This guide is broken down into eight sections as follows:

1. The Need
2. Solution

3. Impact
4. Financial Model
5. Strategic Direction
6. Resources Required
7. Social Return on Investment
8. Next Steps

Section 1: The Need

This first section of your Case for Investment explains the social issue or problem that exists and was the impetus for the work of your nonprofit.

To get there, you must answer these key questions:

- What social problem exists in your community, region, state, or country, world that needs to be addressed?
- How can you quantify the size of this problem? Here is where you will need to gather some external data. For example, if you are running an after-school program for at-risk children, what is the size of the potential audience (kids) for this program? Is this population growing or declining?
- Why would this problem get worse if no one addressed it? How much worse would it get?
- Why should someone not affected by this problem care about it?

Keep in mind, you are NOT talking about your nonprofit in this section. You are talking about the problem (outside of your organization) that you exist to address. You will talk about your nonprofit in the next (“Solution”) section.

Sample Section

To give you an idea of what this section could look like, below is a sample “Need” section from a fictional literacy nonprofit’s Case for Investment. Keep in mind that in your final Case for Investment you will need to include sources to all of the facts and figures you site.

The Need

One in five native English speaking adults in Alabama can’t read or write well enough to fill out a job application, and the trend of illiteracy is growing by 10% each year. The Alabama Workforce Commission predicts that the number of people without basic literacy skills will double by 2040. Alabama already ranks 49th out of 50 states in adult literacy levels.

Adults with low literacy are much more likely than literate adults to live in poverty, participate in crime, rely on public services, suffer from poor health and have children who drop out of school.

In order to create a safer, more economically secure, healthier Alabama, we must address the growing adult illiteracy crisis.

Section 2: Solution

Now that you've identified the larger societal problem that is important and urgent, you want to talk about how your nonprofit is uniquely positioned and capable of addressing that problem.

A key piece that is often missing in a nonprofit's argument is how the nonprofit's solution fits into the competitive landscape. It is not enough to say that you have a great solution. You must compare your solution to other approaches out there (and there are ALWAYS other approaches, they may simply be to do nothing, but it is still an alternative to your solution). You must demonstrate why your approach, in comparison, is superior.

In this section you want to answer the following questions:

- What are the core competencies your nonprofit possesses that make you the right organization to solve this problem?
- What are the alternative solutions to this problem that already exist (competitor organizations or solutions)?
- Why are these solutions inferior? You don't have to get personal and attack your competition, but you can make a reasoned argument for why those solutions don't adequately address the problem.
- What is it about your nonprofit's solution to the problem that makes it superior to the alternatives out there?
- What is your operating model for delivering this solution to the problem identified in the Need section above?
- Ultimately what is your value proposition as an organization? How do you take community inputs (money, people, clients, etc.) and translate those into positive community change?

You want to paint a clear picture about how your organization provides a solution to the problem you just identified above. This section is very closely related to your organization's Theory of Change.

In addition to describing your solution in written format, you may also want to create a visual representation or graphic (perhaps an infographic) that demonstrates exactly how your unique solution works. Below is an example of each format.

Sample Section

The following example of a "Solution" section was gathered from information and materials available on the KaBOOM! website (www.kaboom.org).

Solution

KaBOOM! solves the play deficit among America's children by building playgrounds, taking action for play, and mapping the state of play.

Building Playgrounds

The KaBOOM! community-build model enables diverse groups of volunteers to collaborate towards a collective cause—the *well-being of children*—by completing a tangible product—a *new playground*—in a fixed time period—*one day*—that will make an immediate and lasting difference for decades to come.

Taking Action for Play

Saving play goes beyond building playgrounds. As part of our nationwide advocacy efforts, we strive to equip communities and community leaders with the resources, inspiration, and support they need to bring more play to their neighborhoods, schools, and towns.

Mapping the State of Play

Where are playgrounds needed most? Currently, no comprehensive map of playgrounds exists in the United States. No one can say for sure how many there are, or what condition the majority of our playgrounds are in. Our mapping efforts aim to fill this void.

In addition, KaBOOM! created an infographic [right] that describes their model visually.



Section 3: Impact

In this section you want to share any information that proves your solution works. You may not have the resources for a full evaluation study, and that's fine, but every nonprofit needs to demonstrate that they are doing their best (with limited resources) to track their results.

If, like most nonprofits, you don't have a clear way to demonstrate results, here are some other ideas:

- Client testimonials
- Pre and post client survey results
- Quotes from experts who have worked with your program
- Improvement on test scores
- National results from larger, but similar, programs. For example a local Big Brothers Big Sisters affiliate could point to a national BBBS study that proves the model. Or they could point to a national mentoring study. As long as you are completely transparent about the source of the data and the differences between your organization and the studied organization.

Do the best with what you have.

The questions you want to answer here are:

- What quantifiable results (data, pre/post surveys, test scores, etc.) have we gathered that shows improvement in our clients' lives, change to a system, or some other change that our work has helped create?
- What qualitative (quotes, stories, testimonials) results have we gathered?

If you have nothing to put in this section, you may want to take a step back and figure out how to start gathering some performance data for your program. Mario Marino's book [Leap of Reason](#) is a great place to start thinking about how you measure your work.

Sample Section

The following information is taken from DC Central Kitchen's website (<http://www.dccentralkitchen.org>) and demonstrates how a nonprofit can articulate Impact.

Impact

DC Central Kitchen is a thriving eleven million dollar-per-year business. Each of our programs re-invests critical resources in our community by strengthening other nonprofits, putting people back to work, and working closely with area farmers.

Because we are a 'central kitchen' with the capacity to serve up 5,000 meals to 100 other nonprofits each day, we save these organizations and their donors upwards of \$2 million in food costs annually. With so many nonprofits lamenting budget cuts and declining charitable giving, DCCK is growing in its capacity and impact. Last year alone, the Kitchen invested \$120,000 in 14 local farmers and cooperatives while sparing \$1.2 million in potential food waste.

We also help people move from dependency to self-sufficiency. Since the recession struck in 2008, our 339 graduates have achieved a job placement rate of 90% and a job retention rate of 85%. When other job training programs across DC squandered public and private funds with few results, *The Washington Post* confirmed our ability to successfully train unemployed individuals for less than half the cost of any organization under contract with DC's Department of Employment Services.

Section 4: Financial Model

If you are going to attract philanthropic investments, particularly large ones, you have to demonstrate the financial sustainability of your organization. You must show that you are a wise investment and have developed a sustainable financial model.

By sustainable financial model I mean that you have developed a comprehensive strategy for bringing enough, and the right kind of, money in the door to achieve your strategic goals. This includes revenue and capital, programs and infrastructure dollars, and all funding sources.

In this section you want to demonstrate:

- The size of your annual budget
- The sources of revenue to meet that budget
- How you think your operating expenses will change in the future
- Your plan for maintaining and/or growing those revenue sources

Sample Section

Below is an example of a fictional nonprofit arts organization's financial model section.

Financial Model

The Arts Collaborative has a diverse and sustainable financial model. Our 3-year financial strategy is directly tied to our strategic plan. Our financial strategy aims to increase our overall revenue by 16% to \$912,000 over the next three years in order to meet the goals of our strategic plan.

This growth in revenue will come primarily from two sources. First, we plan to grow our base of individual donations from \$250,000 to \$288,000 during this three-year period. At the same time we plan to grow our government sources from some key new city and county contracts.

We are projecting that by the end of this three-year period we will have a reserve fund just over \$100,000 that will allow us a runway to continue to develop our programs, plan for the future and ensure overall financial sustainability.

Our projected income statement for the next three-year period is as follows:

	FY 2014	FY 2015	FY 2016
Revenue			
Individuals	\$250,000	\$262,500	\$288,750
Corporations	\$75,000	\$78,750	\$86,625
Government	\$300,000	\$315,000	\$346,500
Earned Income	\$15,000	\$15,750	\$17,325
Foundations	\$150,000	\$157,500	\$173,250
TOTAL REVENUE	\$790,000	\$829,500	\$912,450
Expenses			
Staff & Benefits	\$525,000	\$551,250	\$606,375
Rent & Utilities	\$26,000	\$27,300	\$30,030
Materials	\$35,000	\$36,750	\$40,425
Marketing & Website	\$45,000	\$47,250	\$51,975
Office Supplies	\$20,000	\$21,000	\$23,100
Professional Services	\$50,000	\$52,500	\$57,750
TOTAL EXPENSES	\$701,000	\$736,050	\$809,655
Net Income	\$89,000	\$93,450	\$102,795

Section 5: Strategic Direction

Again, in order to attract philanthropic resources, particularly large investments, you have to demonstrate that you have thought about the future and your nonprofit's place in it. If you have a strategic plan, this is where you want to concisely articulate the goals and objectives of that plan. If you don't have a strategic plan, you may want to take a step back and consider creating one. Large philanthropic dollars flow to organizations that are strategic, not reactive. Therefore without a strategic plan you will find it increasingly difficult to successfully go after major donors.

The questions you want to answer in this section are:

- What 3-5 measurable things do we want to accomplish in the next 3-5 years?
- How do these goals contribute to solving the problem we outlined in the "Need" section above?

Sample Section

Share Our Strength, a national hunger-prevention nonprofit, set an ambitious strategic direction in 2009 to eradicate childhood hunger in America by 2015. Below is an example "Strategic Direction" section based on how they have articulated their strategic goals on their website (www.nokidhungry.org).

Strategic Direction

Share Our Strength's goal is to end childhood hunger in America by 2015. It's not enough to make sure America's children have *enough* to eat; we must make sure they are getting the *nutrition* they need to live healthy, active lives.

That is why Share Our Strength's highest priority is to make sure that every child in America gets the nutritious food he or she needs to learn, grow and thrive. We are doing this by improving the access that families all across the country have to healthy, affordable food and by working at the state and city level. This is our No Kid Hungry strategy, and it has four key components that, together, provide children with the nutritious food they need where they live, learn and play:

- Creating public-private partnerships at the state and city level to map out comprehensive, measurable plans to end child hunger in those areas.
- Building public awareness about the problem of childhood hunger and solutions to end it.
- Investing in communities with grants to organizations whose work improves access to nutritious foods or that educate families about such programs.
- Educating children and families about nutritious, affordable eating.

Section 6: Resources Required

This section will change based on the fundraising campaign you are launching and/or the donor audience with which you are communicating. Whatever the campaign may be, you want to answer these questions:

- How much money and over what timeline do you need for this particular campaign?
- Why do you need this much money?
- What will this money do for the organization and ultimately The Need you are addressing?
- How does this amount of money fit into your overall budget over the same timeframe?
- What other sources of money have you committed?

Sample Section

The Nonprofit Finance Fund provided change capital to the Alvin Ailey American Dance Theater to help them more effectively communicate and engage with their patrons. The below example of a “Resources Required” section was crafted from information contained in the case study the Nonprofit Finance Fund provided on their website (www.nonprofitfinancefund.org/LFF/Alvin-Ailey).

Resources Required

The Alvin Ailey American Dance Theater has recognized that the way we engage patrons and audiences is becoming dated and out of step with increasingly sophisticated electronic marketing and communications techniques. We need a new, cross-department approach to technology and social media to increase and retain audiences and make it easier for people to take advantage of more Ailey programs.

We need \$1 million in change capital to undertake a three-part initiative to transform our use of technology and social media.

- **Create a customized, central patron database** that incorporates data from ten previously unlinked sources used by different departments, as well as ticket buyer data from outside venues wherever we self-present. This will create a new platform to better support fundraising, ticketing, education and cross-program patron services.
- **Redesign our website and add new content and functionality**, including streaming video, interactive website content (blogs, contests and other features), and

personalization that facilitates tailored cross-selling among multiple programs and engagement with diverse activities.

- **Incorporate web-based analytics tools** to track patron behavior and measure revenue and expenses, including pixel-based tagging of our email contacts, website visitors and patrons' social network connections. Our use of these tools will lead to a more sophisticated online strategy with a high return on investment.

Section 7: Social Return on Investment (SROI)

Donors, particularly major donors, are increasingly looking for a social return on the investments they make in nonprofit organizations. This does not mean that they want money back (a financial return), but rather, they want the nonprofit to project how the investment the donor makes compares to the problem you are trying to solve. Therefore, you need to make a prediction, based on your past work, of what you will be able to do with the donor's money.

- What will a donor's investment allow you to do?
- How can you compare that investment to the change it will allow you to make?

Here are a couple of examples:

- **Fundraising Campaign for a Program:** A donor invests \$10,000 in a program that provides healthcare to 10 low-income women for 5 years. The nonprofit can reasonably predict (based on healthcare studies) that the improved health of those women will cause them to draw \$1 million less from Medicare over the next 5 years. Therefore, the donor's \$10,000 gift contributed to a \$1 million return for their community.
- **Fundraising Campaign for Capacity Capital:** A donor invests \$10,000 in a nonprofit to purchase a donor database. The nonprofit can reasonably predict (based on other nonprofits' experiences) that a good donor database increases the average donor gift by 20% and thus donor revenue will increase by 20% each year for the next 10 years. The nonprofit can expect to enjoy a total increase in donor revenue of \$1 million over the next ten years. The donor's \$10,000 gift then, resulted in a \$1 million financial return to the nonprofit, which means the nonprofit will have \$1 million more to spend on programs.

Sample Section

Again looking at DC Central Kitchen (www.dccentralkitchen.org) they have articulated the social return on investment for one of their programs, the Culinary Job Training Program.

Social Return on Investment

We graduated 63 ex-offenders in 2011. According to traditional recidivism statistics, these men and women would cost taxpayers \$1,500,000 after just one year. But an ex-offender who completes our program is 96% less likely to end up back in prison than the average ex-offender nationwide. With a program budget of approximately \$600,000, CJT places at-risk

men and women in quality jobs, through which they will contribute \$200,000 in payroll taxes in 2012 while sparing the public considerable expenses in law enforcement, sentencing, homeless shelter services, and welfare payments. *All told, CJT promises a 350% return on investment for our community each year.*

Section 8: Next Steps

I've given you a start at creating a compelling, engaging, investable Case for Investment. Such a Case for Investment can be the fundamental building block for bringing more and larger investments to your nonprofit.

You can use sections of the Case for Investment on your website, in donor appeals, in your Annual Report. You can also put together a PowerPoint version of the Case for Investment and use it at donor cultivation events, or when you meet with donors.

After you have completed this guide, here are some things you can do next:

- If you got stuck and would like some help to get back on track, email info@socialvelocity.net.
- If you want to connect your Case for Investment to a Theory of Change, download the [Design a Theory of Change Step-by-Step Guide](#).
- If you are interested in making your new Case for Investment part of a larger effort to create a stronger, more effective financial model for your nonprofit, check out our [Financing Plan](#) consulting service or go to the [Clients](#) page of our website to read about nonprofits that moved from fundraising to financing.
- Check out the other Social Velocity Step-by-Step Guides [here](#).

I hope you found this Guide helpful. As always, I welcome your feedback or questions about any Social Velocity tool. Please email info@socialvelocity.net with questions, comments or feedback.

Good luck!

This guide was designed to help you transform your nonprofit. If you want a more customized approach, or need help engaging more board, staff and donors in the change process, call (512) 694-7235 or email info@socialvelocity.net to schedule a free consultation with Nell Edgington.

Social Velocity is a management consulting firm that helps nonprofits become more strategic, sustainable, and above all, more effective at creating social change.

