

Return on Investment (ROI)

Measuring the financial benefits of policies and programs

Return on investment analysis compares the economic value of the benefits of programs and policies with their associated costs. Also referred to as *benefit-cost analysis*, this approach to measuring value can be used to assess a range of education, human service, and health programs.

Who should consider ROI studies?

- **Program administrators** to confirm the value of their programs and services
- **Foundations and other funders** to assess the programs of grantees and prospective grantees
- **Public policymakers** to evaluate policies and prioritize alternative programs

How does it work?

The process is straightforward. Just add up the economic value of all the benefits generated by a particular program and compare the sum to the total costs of the program. This actually involves the following steps:

- 1. Measure the total costs**
Add up the costs of the program. Include the value of any in-kind donations such as rent-free office space or volunteers' time.
- 2. Enumerate and measure the outcomes**
List all of the demonstrated or planned impacts of the program on individuals and institutions.

- 3. Value the outcomes**

Convert the outcomes to dollars and cents by using direct or indirect economic calculations.

- 4. Compare the benefits and costs**

The results may be stated as dollars of benefit per dollar of cost or as a percentage return similar to a financial investment.

However, the actual analysis may be quite complex. Producing a comprehensive and credible ROI analysis can present a number of challenges for the analyst. These include:

- **Identifying the net cost of a program**
Not only must the complete costs of the program be included, any costs that would be incurred in the absence of the program must be subtracted to generate the true added cost of the program compared to alternatives.
- **Measuring the impacts of the program accurately**
Sometimes data on a wide range of outcomes must be collected and analyzed. Valid comparison data must also be available to reflect the net effects of the program.

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ROI studies conducted by Wilder Research found:

- Supportive housing in Minnesota generated at least \$123 million for taxpayers in 2010, returning \$1.44 for every public dollar invested.
- A well-run youth intervention program can yield \$4.89 benefit for every dollar of program cost.
- A scholarship program for graduates of foster care produces \$3.42 for every dollar of scholarship aid and support cost.
- An employment program for persons with disabilities generates a return of \$3 for every dollar invested.

- **Finding methods to value outcomes**
Sometimes a great deal of ingenuity and analysis is required to estimate the dollars and cents value of some outcomes. For example, in analyzing a program for troubled youth, an economist might need several steps to estimate the economic value of reducing truancy. He might first consult educational research that shows how lowering truancy increases high school graduation rates. Then, he would use economic research on the value of a high school education to estimate the dollars and cents value of reduced truancy.

You may wonder.....

Q: We have had a program evaluation done, but it did not include a return on investment analysis. Can one be added after the fact?

A: Yes. A well-done evaluation is extremely helpful in producing an ROI analysis. All of the outcomes data provided by a formal evaluation can be used as input to a return on investment analysis.

Q. We have not had a formal program evaluation or it won't be completed for some time. Will we have to wait to perform any return on investment analysis?

A. Not necessarily. In the absence of complete and definitive evaluation data, a *prospective ROI study* can often be performed. Such a study uses actual cost data and the best valuation analysis and then uses reasonable (and conservative) assumed sizes of the impacts that have not yet been measured through formal evaluation. If the assumptions are reasonable, a prospective ROI study can provide useful perspective to decision-makers and also point out what outcomes should be measured in the future to produce a more complete and accurate estimate of the return of a program.

Economic analysis services provided by Wilder Research

- **ROI analysis:** For existing or new programs.
- **ROI framework:** Provides a prospective or evaluative analysis of economic benefits and costs generated by programs.
- **Economic impact studies:** Measures the impact in the local economy of programs such as small business programs, job training, or educational institutions.
- **Cost effectiveness studies:** Evaluation of the cost of generating outcomes. For example, the cost per graduating participant.
- **Estimation of social costs of policies, programs, or initiatives:** For example, the cost of not treating maternal depression.
- **Market research for nonprofit and public programs:** These include assessment of existence and size of the market for nonprofit projects.

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For more information

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