Cost and Revenue Study Activities

Cost-revenue analysis is at the heart of developing a product-focused approach to community foundation sustainability. Doing your own cost-revenue analysis answers a critical question to developing this new approach: What are the costs of the different kinds of funds and activities that we handle? These directions provide a step by step guide to performing a cost-revenue analysis, including how to use the **Application Tools for Doing Your Own Cost-Revenue Analysis**, all available for download on FSG's website. This 15-step process mirrors the steps FSG used in our 2003 study of 9 community foundations, enabling you to complete a cost-revenue study, compare your findings to benchmarks from other foundations, and communicate your findings to your staff and Board.

Before undertaking your own analysis, we highly recommend that you read our white paper, "Strengthening Community Foundations: Redefining Opportunities", available on our website, which provides excellent context for any foundation doing a cost revenue analysis.

1. Establish team roles – Designate staff member(s) responsible for each of the following tasks. These staff members will become the Project Working Team.

- Gathering Foundation data (described in more detail in step 6)– operating costs, revenue by fund, and detailed fund, gift and grant analysis
- Administering survey process (described in more detail in steps 7 and 8)
- Entering and checking each staff member's survey data into matrix template (described in more detail in step 9)
- Completing analysis using the cost and revenue model (described in more detail in steps 10 and 11)
- Synthesizing data into relevant presentations to share with staff and Board (described in more detail in steps 12, 13, 14 and 15)

2. Discuss workplan

- Create a timeline for each of the activities listed above. In our experience, it takes at least 2 to 3 months between the kickoff of the cost-revenue project (step 3) and the review of preliminary results (step 12). It typically takes an additional month to analyze the findings, develop recommendations and prepare a presentation to the Board (steps 13, 14 and 15).
- A sample workplan is available for download in the **Kickoff Presentation to Staff or Board** referenced in step 3.

3. Kickoff with staff – Communicate goals of project and activities involved to Foundation staff and discuss the major questions that the analysis can answer

- Two documents available for download in the **Application Tools for Doing Your Own Cost Revenue Analysis** section on FSG's website can help you to communicate the purpose and the process of the cost-revenue analysis:
  - **Kickoff Memo To Staff:** An introductory memo to staff in Microsoft Word describing the purpose and process of the cost-revenue analysis.
  - **Kickoff Presentation to Staff or Board:** A powerpoint presentation introducing the cost revenue analysis, including both the purpose and the process of the study.
- Identify and discuss the high-priority questions you want the cost-revenue analysis to answer. Some questions that other foundations have answered with the analysis:

  - How much do the different funds and products we offer really cost?
  - Which products make money for the Foundation and which do we subsidize?
  - How do our costs compare with other foundations?
  - Where can we cut back spending while still supporting our mission?
  - In an increasingly competitive market, how does the Foundation best position itself for sustainability?
- Identify additional ongoing or planned initiatives that the study can inform

4. Identify products to include in the analysis – Prioritize 8-12 products for analysis

- The cost-revenue analysis will identify the full cost of delivering each of your products. Some of these will be fee-based products such as donor advised funds, scholarships, competitive grantmaking funds (unrestricted and/or Field Of Interest) – others may be supporting organizations, unique large funds, planned giving products, or initiatives without any clear associated revenue such as convening and community leadership efforts.
- In our experience, 8-12 is the suggested number of products to include in the analysis. No foundations we worked with had less than 8 products, and including more than 12 makes it difficult for staff members to differentiate among products when completing the staff survey, thereby limiting the accuracy of the analysis.
- Use the following suggested criteria for identifying a distinct product:

  - Bundled set of services delivered to customers/donors for a published fee (such as donor advised funds, designated funds, scholarships)

  - Customized set of services delivered to customers/donors for negotiated fees

  - Unique set of activities which represents a significant amount of the Foundation's staff time, is designed to serve the community or the field, but which may not generate revenue (such as proactive initiatives or community leadership initiatives)

  - Set of funds that need to be separated from another product area because including them could distort findings. For example, one large fund that requires significant staff time and customized processes, or donor advised funds advised by a committee)

5. Customize the staff survey – Build the survey to be administered to all staff

- The staff survey is an excel worksheet that lists all of your foundation's activities down the left side of the worksheet, and all of your foundation's products across the top. This survey will be given to all staff members to capture the time each staff member spends on each activity and product.
- A sample staff survey template in Excel is available for download on FSG's website, under **Application Tools for Doing Your Own Cost-Revenue Analysis—Cost-**

Revenue Template and Model—Staff Survey Template. This template includes the 87 activities and several products common to all foundations.

- With the project working team, customize the staff survey for your unique foundation. This includes adding any activities not listed in the matrix, and filling in the products that you identified in step 4.
- Revise the survey to ensure it captures all of the Foundation's unique activities, in the language that is most familiar to staff

6. Gather foundation data

- The cost-revenue study relies heavily on foundation data for its accuracy and detail. This step gathers the data necessary for completing the cost-revenue analysis, and typically takes approximately two weeks to complete. The data gathered in this step will be used in many of the subsequent steps of the process.
- Required data:
  - a. Itemized operating expenses for the previous year, and next year's projected budget
  - b. Fully loaded personnel cost (salary, benefits, & any individual training/education fees) for each staff position, filled and vacant (note: only include vacant positions in you intend to fill them within the next year)
  - c. Revenue by product (as defined in Step 4) from the latest year (includes fee revenue and any other non-fee revenue)
  - d. Exports from the foundation's database (Note: we recommend exporting the data into Excel):
    - i. A list of all funds active during the previous year, with the following information on each:
      1. Fund ID
      2. Year the fund started

3. Fund market value (end of previous year)
4. Fee structure applied, and fee collected previous year
5. Year fund closed (if applicable)
6. Product category for the fund (Note: It is important to remember to use the products as they were defined in Step 4, which may be different than the designation in the foundation database.)

ii. A list of all gifts from the previous year, with the following information on each:

1. Amount of gift
2. Date of gift
3. Type of gift (i.e., cash, stock, real estate)
4. Fund ID to which gift was made
5. Product category for the fund to which gift was made (Note: It is important to remember to use the products as they were defined in Step 4, which may be different than the designation in the foundation database.)

iii. A list of all grants from the previous year, with the following information on each:

1. Amount of grant approved
2. Amount of grant paid
3. Date of grant paid
4. Fund ID from which grant was paid
5. Product category for the fund from which grant was paid (Note: It is important to remember to use the products as they were defined in Step 4, which may be different than the designation in the foundation database.)

7. Schedule staff survey

- We have found it useful to have staff members complete the staff survey in groups, ideally with 4-6 staff who have similar roles and responsibilities. For most foundations, scheduling the survey by department has worked well.
- Assign every staff member to a facilitated 2 hour group session, during which each will complete the time survey. The facilitator should be the same for all sessions, and be available to provide instructions and clarify activity and product definitions. Ideally, the facilitator should be a member of the Project Working Team.

8. Complete staff surveys

- Administer survey to groups of staff members. A memo to staff with directions for taking the staff survey is available on FSG's website in the **Application Tools for Doing Your Own Cost Revenue Analysis**—**Communications Tools—Directions for Taking the Staff Survey** section.
- For vacant positions that you intend to fill within the next year, determine process of completing the survey to accurately represent responsibilities (e.g. mirror the survey of someone in a similar position, use an average of the department's surveys, assign time allocation based on job description, etc.)
- After the survey has been administered, the facilitator is responsible for checking responses (in particular checking to make sure that each staff person's total time adds up to 100%), and entering each paper survey into an Excel worksheet.

Cost and Revenue Study Activities

9.	**Customize and calculate allocation rules –** Review and calculate suggested allocation rules that will be used to assign unallocated time to products and customize for the Foundation

- Allocation rules are used on two occasions: a) whenever staff members can identify the time spent performing a specific activity, but not allocate that time across the product categories; and b) to allocate direct costs associated with specific activities. Through our work with the nine foundations who completed the cost-revenue analysis, we have developed suggested allocation rules for each activity, which are available for download from our website in the **Application Tools for Doing Your Own Cost-Revenue Analysis—Cost-Revenue Template and Model—Suggested Allocation Rules** section.
- Review the suggested allocation rules, and modify rules where appropriate or necessary for your foundation.
- Allocation rules will be applied in step 11. But first, each rule must be calculated. Using the database export data from step 6, calculate the allocation rules, determining the percent of unallocated cost to assign across products. When you are finished, each allocation rule should distribute a total of 100% across the foundation's products.

10.	**Categorize operating expenses**

- Determine which non-staff expenses to assign directly to specific activities (i.e., direct costs), and which to allocate indirectly to the Foundation's entire list of activities and products (i.e., indirect costs) based on the distribution of staff time.
- Base costs on the previous year, but adapt personnel costs, direct non-staff costs, and indirect non-staff costs to best represent one year of the Foundation's costs going forward.

11.	**Perform analysis** – Apply model

- This step represents the bulk of the analysis, and typically takes 2-3 weeks. In this step, all of the foundation's costs—including staff, direct non-staff, and indirect non-staff costs—are aggregated to determine the cost for each product and activity. An excel workbook is available on FSG's website with necessary templates. The templates can be found under **Application Tools for Doing Your Own Cost-Revenue Analysis—Cost Revenue Template and Model.**

a) Aggregate individual survey responses in a master Excel file

b) Review each survey to identify activities for which the staff member allocated time, but not to individual products; apply the allocation rules (calculated in step 9) to spread unallocated time across products. Repeat this process for each survey. At the end of this step in the process, you will have a worksheet for each staff member with a value in each cell, and 100% of time allocated. A template for capturing the data in this step can be found on FSG's website under **Application Tools for Doing Your Own Cost-Revenue Analysis—Cost Revenue Template and Model.** The worksheet name is **Staff Time (100%).**

c) Once all the allocation rules have been applied to each staff survey, aggregate the full distribution of 100% of staff time for all staff members into a single worksheet (i.e. aggregate the Staff Time (100%) worksheets). At the end of this step, you will have a worksheet with 100% of the full Foundation's time allocated to products and activities. This new worksheet will be used to allocate indirect non-staff costs.

d) Enter each staff member's total compensation into a worksheet. A template for capturing the data in this step can be found on FSG's website under **Application Tools for Doing Your Own Cost-Revenue Analysis—Cost Revenue Template and Model.** The worksheet name is **Staff Compensation Multipliers.**

e) Convert staff time into dollars. This step ties together each staff member's Staff Time (100%) worksheet and the Staff Compensation Multiplier worksheet. By multiplying each staff person's total compensation by the percentages in each cell of the Staff Time (100%) worksheet, you will have a dollar amount for each cell in the worksheet.

Cost and Revenue Study Activities

At the end of this step, you will have a worksheet for each staff member that distributes their annual total compensation across products and activities. A template for capturing the data in this step can be found on FSG's website under **Application Tools for Doing Your Own Cost-Revenue Analysis—Cost Revenue Template and Model.** The worksheet name is **Staff Cost ($).**

f) Aggregate the full personnel cost for all staff members into a single matrix by totaling together each staff members Staff Cost ($) worksheet.

g) Assign direct non-staff costs to activities and products where appropriate. Where a cost can be assigned to an activity, but not a product, distribute cost across products using the given allocation rule for that activity. A template for capturing the data in this step can be found on FSG's website under **Application Tools for Doing Your Own Cost-Revenue Analysis—Cost Revenue Template and Model.** The worksheet name is **Direct Non-Staff Costs.**

h) Using the full 100% distribution of staff time (from step 11-C), distribute indirect non-staff costs (such as rent, office expenses, and other non-staff costs that are not directly associated with a specific product or activity) across all products and activities based on the way the Foundation's staff spends its time. A template for capturing the data in this step can be found on FSG's website under **Application Tools for Doing Your Own Cost-Revenue Analysis—Cost Revenue Template and Model.** The worksheet name is **Indirect Non-Staff Costs.**

i) Aggregate these three types of cost to generate a single worksheet for the Foundation's total costs (i.e., add together the Staff Cost ($) worksheet from step 11-F, the Direct Non-Staff Costs worksheet from step 11-G, and the Indirect Non-Staff Costs worksheet from step 11-H). A template for capturing the data in this step can be found on FSG's website under **Application Tools for Doing Your Own Cost-Revenue Analysis—Cost Revenue Template and Model.** The worksheet name is **Total Cost.**

j) Compare the costs for each product to the revenue generated for each product (gathered in step 6). This last step will indicate the contribution generated or subsidy required for each product.

k) Congratulations! At this point, you've finished the model.

12. Review initial results and implications – Schedule a working meeting with senior staff to discuss findings and identify areas for further analysis

- Once you have finished the model, you can identify the cost for each product, and whether each product is requiring a subsidy or generating a contribution.

  Typically, foundations have found it helpful to prepare a presentation of the quantitative results from the model. Powerpoint examples of helpful displays of this information are available in **Application Tools for Doing Your Own Cost-Revenue Analysis-Communications Tools-Sharing Cost-Revenue Analysis and Results.**

- Upon reviewing the analysis, the foundations we have worked with typically focus on the following areas of implications:
  - Specific product pricing adjustments
  - Opportunities to reallocate resources based on strategic priorities or reduce high cost activities, particularly around policy or structural changes that would improve operations
  - New revenue or product opportunities

13. Determine implications and develop recommendations where appropriate

- Based on feedback from staff discussions, prioritize areas where the cost analysis data can be adapted to illustrate possible changes to pricing, policies, or products – if additional strategic, market and customer information is available, explore possible recommendations

14. Compare to other foundations

- Compare Foundation findings to benchmarks. Comparative findings from our work with 9 community foundations on the cost-revenue study can be found on FSG's website under **Application Tools for Doing Your Own Cost-Revenue Analysis-Cost Analysis Comparisons of 9 Community Foundations**. Included are benchmarks to assist you in interpreting your cost-revenue study findings.

- By comparing your findings to benchmarks, you can answer the key questions you defined at the outset, *such as:*

- What are the Foundation's relative strengths in terms of asset base and cost effectiveness?

- Where is the Foundation making unusually large or small investments in community leadership activities or non-grant services to the community, acquisition of new funds and gifts, or the ongoing subsidization of individual products? Is this an accurate reflection of the Foundation's strategic choices?

- How close is the Foundation to the low cost providers of each product?

- What are the key factors influencing sustainability the Foundation should examine more closely for those products it is subsidizing?

15. Prepare and deliver Board presentation

Develop a presentation to be delivered to the Board or Board Committees, as appropriate. A sample powerpoint presentation is available on our website under **Application Tools for Doing Your Own Cost-Revenue Analysis-Communications Tools-Sharing Cost-Revenue Analysis and Results.**