Pathway to Business Model Innovation

Getting to “Fueling Impact”

February, 2011

cfinsights.org
What if EACH community foundation could know what ALL community foundations collectively know?
CF INSIGHTS responds to a hunger for shared knowledge and greater impact: Community foundations grow stronger when their decisions are based on timely, accurate, and complete information.

IN PARTNERSHIP with the Community Foundations Leadership Team, FSG has been a driving force for CF Insights since its inception.
I. Call to Action
Why is “Business Model Innovation” important?

II. The Journey
How should my community foundation think about it?

III. CF Insights Resources
What should we do next?
“Fueling Impact”: Taking the Next Steps
KEY QUESTIONS COMMUNITY FOUNDATIONS ARE ASKING ABOUT BUSINESS MODEL INNOVATION

• How should community foundations focus internally and externally in order to identify opportunities for business model innovation?

• How can we plan for our immediate needs and sustainable growth?

• What process steps can we take and what practical tools are available to support strategic thinking and problem solving within your own foundation?
“The market is changing and community foundations need to understand the premise of what they’re doing now, what their value proposition will be in the future and how they’ll change.”

KELVIN TAKETA
CEO
Hawaii Community Foundation
THE NEED FOR CHANGE: WHY IS IT IMPORTANT TO INNOVATE?

Volatile Economy
- 2008 market downturn led to budget shortfalls yet again
- Admin. fees covered only 66% of 2008 budgets
- 50% of foundations are intent on exploring new revenue sources

Competition & Technology
- Commercial and nonprofit providers continue to grow services for donors
- New technologies are leading to operating efficiencies, consolidation, new modes of communication and new service offerings

Increased Collaboration
- Collaboration across geographic and sector boundaries
- Networked ways of increasing impact

Evolving Donor Needs
- Donors are younger, more tech savvy, culturally diverse, independent and active community leaders
- More than half of CF grant dollars originate from DAFs

New Constituents
- New constituents include nonprofit organizations, corporations, public agencies, private foundations, and funder collaboratives

Changing Assets
- Assets are no longer permanently endowed
- Flexible, non-endowed resources further stretch the CF business model

A CHANGING PHILANTHROPIC LANDSCAPE, NEW OPPORTUNITIES FOR LEADERSHIP AND IMPACT, AND A GLOBAL ECONOMIC CRISIS, SPEAK TO AN URGENT NEED FOR CHANGE.
In observing the spectrum of revenue choices made by individual foundations, it is helpful to consider the following questions:

- How do revenue sources align with the different ways community foundations create, deliver, and capture value?
- How are community foundations diversifying in ways that simultaneously support differentiation and sustainability? How can we learn from this innovation to plan for a stronger future?
DIFFERENTIATION AND SUSTAINABILITY ARE THE TWO MUTUALLY REINFORCING PRINCIPLES BEHIND A STRONG BUSINESS MODEL

**Differentiation:**
- Constituents
- Community context
- Foundation’s internal strengths

**Community Foundation Mission**

**Sustainability:**
- Current income
- Future growth

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**Differentiation**

Offering a distinct value proposition tailored to constituents’ needs, community context, and unique strengths of the foundation

**Sustainability**

Enabling the foundation to achieve its mission today (through current income), while enhancing its ability to do so in the future (through future growth)
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FOCUS YOUR JOURNEY ON A SERIES OF KEY QUESTIONS

**Explore Innovative Ideas**
- How can we keep up with – and ahead of – a changing market?
- How can we keep up with – and ahead of – an evolving landscape of opportunities for impact?

**Understand Your Business Model and Performance**
- How can we develop a deeper understanding of our business model? How do we create, deliver, and capture value in a way that is both differentiated and sustainable?
- How can we understand our performance in the context of the field and an ever-changing philanthropic landscape?

**Plan for the Future**
- How can we make wise decisions about strategic priorities that support our differentiation? And products and policies that both generate income today and support future growth?
- How can we test our plans for the future against possible scenarios?

CF INSIGHTS AND COMMUNITY FOUNDATIONS LEADERSHIP TEAM RESOURCES CAN HELP
IDENTIFY THE SCOPE OF YOUR INQUIRY – WHAT IS YOUR GOAL?

- **Address ‘hot spots’ or ‘low hanging fruit’** - *Where are we not capturing value or managing costs in particular product or service areas?*
  - “We know we need to address the scope of services for our affiliates, which we’ve been practically giving away (e.g., managing a match day). We and they will have a hard time swallowing change, but we have to make changes...It would just help to have more data to know what it really costs us to do the work.” – CF CEO
  - “We need a process and tools to decide how we should assign value to our services: a ‘cost plus’ approach, what the market will bear, what value the service generates?” – CF CEO

- **Support growth in new areas** - *For the new value we want to create in the community, what does it cost and how are we going to pay for it?*
  - “For example, how should we package private foundation conversion or services. We need to share information across CFs to enable us to effectively approach different types of relationships.” - CF CEO

- **Explore the big picture** – *How can we begin to build business model innovation into our overall strategy?* OR *If we were starting from scratch, what kind of community foundation would we design?*
  - One foundation stepped through strategic planning, using the following resources:
    - “Fueling Impact” for new ideas about business model innovation.
    - Comparative data on peers chosen to reflect both who the foundation is today and who it wants to become.
    - Findings from an activity-based costing model conducted in partnership with CF Insights, helping to ground discussions about what the future may look like for the foundation.
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EXPLORE INNOVATIVE IDEAS – WITH AN EMPHASIS ON LEARNING FROM YOUR PEERS AND CONSTITUENTS IN YOUR COMMUNITY

Start with “Fueling Impact” to Generate Ideas
- Read and discuss concepts, examples of diversified revenue sources, case studies

Supplement with Case Studies from Additional Reports

Connect with Peer Community Foundations
- Share ideas at regional association and other network meetings
- Explore CF Insights’ data to identify interesting peers

Connect with Constituents
- Learn more about current and emerging needs
Understand Your Business Model and Performance

ANALYZE YOUR OPERATING MODEL

• Define your products and services
• Apply the CF Activity Based Costing model, designed to understand the costs and revenues associated with each community foundation product or service
• Compare results to peers, using CF Insights' database including findings from CFs ranging from $5M-$1.6B in assets

The methodology and set of tools were developed by FSG in 2003 and made available for free to community foundations through the support of the Community Foundations Leadership Team
Understand Your Business Model and Performance

CF Activity-Based Costing Analysis

CONDUCT A DETAILED REVIEW OF YOUR CURRENT PRODUCTS, COSTS, AND REVENUES

WHERE ARE YOUR RESOURCES GOING? ARE YOU SUBSIDIZING STRATEGIC INVESTMENTS OR AREAS YOU SHOULD BE BREAKING EVEN?

ARE THERE OPPORTUNITIES TO INCREASE REVENUES TO BETTER ALIGN WITH THE VALUE OF PRODUCTS AND SERVICES?

- Match economics to mission
- Prioritize the right products and services
- Adjust fee schedules and create incentives for donors that support priorities
- Evaluate revenue sources
- Gauge community leadership investment

The foundation should also consider how pricing, activity, or policy changes for the fastest growing products can improve the Foundation’s sustainability.
Understand Your Business Model and Performance

GAUGE YOUR PERFORMANCE

Contribute Your Data to CF Insights’ Database

- Contribute information about your basic operating model, expenses, assets, gifts, grants, staffing, fees
- Data then becomes available to members as criteria to build peer groups and inform comparative reports

Identify Unique Strengths or Challenges through Comparative Data

- Access over 60 comparative reports
- Use a benchmarking dashboard to understand performance relative to a selected set of peers
- Get specific about your assets, revenues, and unique capabilities
Understand Your Business Model and Performance

Comparative Data
ACCESS INFORMATION ON OVER 500 COMMUNITY FOUNDATIONS, WITH 60 ON-DEMAND REPORTS CUSTOMIZED TO REFLECT AN INDIVIDUAL COMMUNITY FOUNDATION’S UNIQUE PEER SET

WHAT IS UNIQUE ABOUT YOUR COMMUNITY FOUNDATION RELATIVE TO YOUR PEERS?
HOW DOES YOUR BUSINESS MODEL COMPARE?

- Asset composition
- Cost structure
- Growth and giving patterns
- Staffing ratios and functions
- Revenue mix
- Age and development path
- Community served
Plan for the Future

PLAN FOR THE FUTURE – RESEARCH MARKET OPPORTUNITIES AND NEW REVENUE SOURCES TO TEST

Connect with Constituents
- Get more specific with constituents about how they perceive the CF’s greatest value – today and in the future

Identify New Revenue Sources
- Screen ideas for fit with criteria: generate current income, support future growth, and fit constituents’ needs, the community context, and your unique strengths

Determine New Ideas to Test
- Identify factors to change going forward
- Define a set of new revenue ideas and possible operating efficiencies to test
THERE ARE A RANGE OF DIVERSE REVENUE SOURCES TO CONSIDER – SERVING DISTINCT CONSTITUENCIES

<table>
<thead>
<tr>
<th>Fundholders</th>
<th>Nonprofits</th>
<th>Broader Community</th>
<th>Organizations Needing Philanthropic Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Administrative fees</td>
<td>• Grants or fees for capacity building services to nonprofit organizations</td>
<td>• Fees or proceeds from Mission Investments</td>
<td>Custom fees for:</td>
</tr>
<tr>
<td>structured based on</td>
<td>• Standard or custom fiscal sponsorship fees</td>
<td>• Private foundation funding for special initiatives</td>
<td>• Philanthropic advising for private foundations, corporations and individuals</td>
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<tr>
<td>contributions or grants</td>
<td></td>
<td>• Leadership funds</td>
<td></td>
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<tr>
<td>• Staff time billed</td>
<td></td>
<td>• Membership fees</td>
<td>• Administrative services for private foundations, funder collaboratives, corporations, community foundations, or nonprofit projects</td>
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<td>directly to funds</td>
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<tr>
<td>• Gifts directed to</td>
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<td>• Back office and investment management collaborations</td>
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<tr>
<td>pooled funds that</td>
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<tr>
<td>charge distinct</td>
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<td>support fees</td>
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## PLAN FOR THE FUTURE – CHOOSE THE APPROPRIATE TOOL TO TEST IMPLICATIONS OF DIFFERENT OPTIONS

<table>
<thead>
<tr>
<th>Description</th>
<th>Purpose</th>
<th>Time Period</th>
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<tbody>
<tr>
<td><strong>A simplified strategic forecasting model</strong> which reduces the number of</td>
<td>Provide foundations the ability to model the potential integrated impact of specific strategic, market and operational changes</td>
<td>Future 5 years</td>
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<tr>
<td>“change factors” to focus on a few fundamental external variables</td>
<td></td>
<td></td>
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<td>influenced by the economic environment</td>
<td></td>
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<tr>
<td><strong>A strategic forecasting model</strong> which forecasts product and foundation</td>
<td>Provide foundations the ability to model the potential integrated impact of specific strategic, market and operational changes – including detailed fee structures, and impact on variable costs and product profitability as the CF grows</td>
<td>Future 10 years</td>
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<tr>
<td>level costs, revenues and assets based on a wide range of user-selected</td>
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<tr>
<td>strategic, market and operational changes</td>
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Both tools were developed by FSG and made available for free to community foundations through the support of the Community Foundations Leadership Team.
Plan for the Future

Economic Scenario Planning
MODEL IMPLICATIONS AND SCENARIOS FOR CHANGES TO YOUR CURRENT BUSINESS MODEL

WHERE DO YOU NEED MORE STABILITY AND WHERE CAN YOU TAKE MORE RISK?

- Generate more diversified revenue sources connected to service offerings, including revenues unconnected to investment performance
- Take a more active role to influence donor giving and grantmaking levels
- Revisit policies or build funds that add operating flexibility, particularly to support programmatic and leadership work

WHAT DOES IT LOOK LIKE WHEN YOU MAKE SPECIFIC CHANGES?

- Addition of new fee structures that are not tied to assets but connected to service offerings
- Budget changes that correspond with adjustments to business model
- Implications of different scenarios for changes in donor behavior or market performance
- Degree of resilience introduced by funds that add operating flexibility

BASED ON THE RESULTS OF YOUR SCENARIO PLANNING, YOU WILL BE ABLE TO MAKE MORE INFORMED DECISIONS ABOUT THE CHANGES NEEDED IN YOUR BUSINESS MODEL
To continually evolve and serve the changing needs of a community, foundations will naturally assume a reasonable amount of risk.

The key is to balance the amount of risk a foundation takes on, to continue learning and making data-driven decisions, and to remain disciplined about discontinuing products and services that continually erode a foundation’s sustainability in the immediate- and long-term.