

WHAT RESOURCE SHOULD WE USE?

CF INSIGHTS PROVIDES THREE INTERRELATED MODELS, EACH SERVING A DIFFERENT PURPOSE

Each of the three tools helps community foundations make more informed decisions to enhance their operational sustainability:

- Activity Based-Costing Model – also known as the “Cost Revenue Study”
- Economic Scenario Planning (ESP) Model – forecasting tool created in 2009, also known as the “Stress Test”
- Interactive Strategy Model (ISM), forecasting tool created in 2004

In partnership with the Council on Foundations’ Community Foundations Leadership Team, all of these tools are available for free for use by community foundations at www.cfinsights.org

COMPARISON OF THE THREE MODELS

Comparison	Activity-Based Costing Analysis Model	Interactive Strategy Model (Forecasting Tool)	Economic Scenario Planning Model (Forecasting Tool)
Description	A model for calculating a foundation’s actual costs, revenues, and subsidy or contribution by product based on activity-based costing accounting methods	A strategic forecasting model which forecasts product and foundation-level costs, revenues and assets based on a wide range of user-selected strategic, market and operational changes	A simplified strategic forecasting model which reduces the number of “change factors” to focus on a few fundamental external variables influenced by the economic environment
Purpose	Provide foundations insight on the current profitability of individual products in order to inform strategic and operational decision making	Provide foundations the ability to model the potential integrated impact of specific strategic, market and operational changes	Provide foundations the ability to model the potential integrated impact of specific strategic, market and operational changes
Temporal Focus	Prior Fiscal Year	Future 10 Years	Future 5 years

Benefits of Integrating Activity-Based Costing Analysis with the Interactive Strategy Model (ISM)

The activity-based costing model and the ISM are designed to work together to provide community foundations a full picture of their past and future financial performance. The activity-based costing model gives a very detailed view of costs and revenues by product in the recent past, the prior fiscal year. By analyzing these results, community foundations can gain a clear understanding of the current financial circumstances by product. The next step is to determine which changes to make going forward in order to enhance foundation sustainability. Community foundations can then use the ISM to model potential changes and make strategic and operational decisions based on the estimated impact at the foundation and product level.

The ISM was built to incorporate the results of the cost-revenue model. As a result, if a community foundation has completed the activity-based costing model for its most recent fiscal year, it can leverage its efforts in two ways.

1. First, the foundation can reuse staff survey results from the cost-revenue model and avoid having to survey their staff once again.
2. Second, it can enter the activity-based costing model's activity category sub-total results for direct costs directly into the ISM. The ISM can then use this data without having to go through the step of allocating direct costs across products and activity categories.

These two steps can save foundations time when entering the prior year's data into the ISM. While the Activity-Based Costing Analysis allows community foundations to analyze up to 16 products, the ISM limits the analysis to 12 products. So if you want to leverage the Activity-Based Costing data for the ISM, then you should define your products with the ISM in mind.

However, the Activity-Based Costing Analysis is Not a Pre-requisite for Using the ISM

If a community foundation has not completed the activity-based costing model for its most recent fiscal year, it can still use the ISM. The foundation will just need to complete extra steps in order to provide the prior year's cost data and the ISM will allocate these costs across products and activity categories.

Cost Type	If the Foundation HAS Completed the Activity-Based Costing Analysis	If the Foundation HAS NOT Completed the Activity-Based Costing Analysis
Staff	<ul style="list-style-type: none"> • Refer to the surveys that staff completed for the activity-based costing analysis and totals them by activity category using the ISM Staff Survey Template • Enter totals into the ISM 	<ul style="list-style-type: none"> • Have staff fill out a brief survey (shorter than the activity-based costing analysis survey) indicating how they spend their time across products and activity categories • Total surveys using the ISM Staff Survey Template, enter into the ISM
Indirect	<ul style="list-style-type: none"> • Enter the total amount of indirect costs into the ISM • The ISM allocates this cost across products and activity categories according to how the foundation's staff spent their time 	<ul style="list-style-type: none"> • Same
Direct	<ul style="list-style-type: none"> • Copy the activity-based costing analysis' direct cost sub-totals by product and activity category into the ISM • The ISM uses this data without alteration 	<ul style="list-style-type: none"> • For direct costs that the user is able to attribute to specific products, enter this cost by product and activity category • For all other direct costs, enter this cost by activity category only • The ISM allocates this non-product specific direct cost across products using pre-set allocation rules

Difference between Forecasting Tools

In 2004, FSG along with the CFLT and several sponsoring community foundations developed an Interactive Strategy Model (ISM) that built upon FSG's cost-revenue modeling methodology. The ISM is a strategic forecasting model and scenario planning tool which defines product and foundation-level costs, revenues and assets based on user-selected strategic, market and operational "change factors." The model offers community foundations the ability to simultaneously adjust multiple variables and see the integrated impact on their operating model over a 10 year time horizon.

The ESP Model leverages the mechanics and concepts behind the ISM, but offers a less complex model, easier to populate with each community foundation's data, and more accessible to a wider range of users. Simplifying the ISM, the "Stress Test" model reduces the number of "change factors" to focus on a few fundamental external variables influenced by the economic environment. The "change factors," or variables, of the model are limited to asset performance, giving levels, and grantmaking levels by the foundation's various fund types.

Additional modifications of the Interactive Strategy Model (ISM) to create the "Stress Test" model include:

- Creating a more limited set of inputs and outputs
- Removing the requirement to conduct a simplified cost-revenue study as a pre-requisite to conducting scenario planning; by not collecting staff time by fund type, the focus on product profitability is eliminated in favor of looking at the sustainability of the community foundation as a whole
- Keeping the distinction of different fund types (e.g., DAF, Unrestricted, FOI, Agency, etc.) for the sake of modeling changes to gifts and grants by fund type
- Allowing for budget changes only at the aggregate level, not adjusting for changes in staffing levels or budget line items
- Removing the option to change fee structures

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