Seeking Shared Success: Business Model Innovation through Mergers, Affiliations, and Alliances

March 3, 2011

cfinsights.org
The idea behind CF Insights is simple: what if each community foundation could know what all community foundations collectively know?

- Founded in 2006 in partnership with the Council on Foundations
- Dedicated to helping build a diverse community foundation field in which each member realizes its full economic and social potential
- Enables community foundations to make more informed, effective decisions about their operating models to achieve greater sustainability and impact

**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.
AGENDA

I.  The Importance of Business Model Innovation

II.  The Possibilities Offered By New Structures

III.  Examples from the Field

IV.  Next Steps
THE NEED FOR CHANGE: WHY IS IT IMPORTANT TO INNOVATE?

Volatile Economy
- 2008 market downturn led to budget shortfalls yet again

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

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.

For more information on business model innovation, access the CFLT funded report “Fueling Impact: A Fresh Look at Business Model Innovation and New Revenue Sources” from cfinsights.org
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

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)
NEW STRUCTURES REPRESENT ONE WAY TO INNOVATE THE BUSINESS MODEL

Three structural options found in the community foundation field:

<table>
<thead>
<tr>
<th>Alliances</th>
<th>Affiliations</th>
<th>Mergers</th>
</tr>
</thead>
<tbody>
<tr>
<td>A community foundation or other entity provides an umbrella of core administrative services for a fee to other incorporated community foundations</td>
<td>A “host foundation” provides services to regional affiliates that operate as part of the host foundation, but maintain local grantmaking authority and local representation</td>
<td>Two community foundations coming together to form a single consolidated community foundation serving a defined region</td>
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THESE STRUCTURES CAN HELP YOUR FOUNDATION MEET THE GROWING DEMANDS AND RIGOROUS STANDARDS FOR SUCCESS
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SEEKING SHARED SUCCESS
Mergers, Affiliations, and Alliances

• Why should you consider a merger, affiliation, or alliance?

• What are the benefits and barriers to forming these types of relationships?

• How do you determine what structure best suits your needs?

• What can you learn from those that have adopted these structures?
THERE ARE MANY EXAMPLES OF CFs INNOVATING WITH STRUCTURES THAT PROVIDE INSIGHT INTO FACTORS FOR SUCCESS AND BARRIERS

“This is the work of neighbors partnering with one another and trusting each other. We need to extrapolate from the success stories what you need to consider for partnering in any local environment.”

Donnell Mersereau, Executive Director, Midwest Community Foundations’ Ventures
THERE ARE MULTIPLE REASONS TO THINK ABOUT AN ALLIANCE, AFFILIATION, OR MERGER – COST SAVINGS IS NOT THE ONLY FACTOR

- Change in leadership or loss of key staff
- Feeling of stagnating growth or an outdated strategy
- Sense that the notion of community is broadening to include territory served by other community foundations
- Interest in expanding philanthropy across a broader territory
- Request or pool of funds to form a new community foundation
- Desire to redeploy staff time on externally-facing activities and less on administrative tasks

COST SAVINGS CAN BE ELUSIVE OR NOT REALIZED IMMEDIATELY BECAUSE OF UP-FRONT INVESTMENTS
### ALLIANCES, AFFILIATIONS AND MERGERS OFFER KEY BENEFITS AT VARYING DEGREES

Understanding the benefits will help you determine which option makes sense for your needs.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Structure</th>
<th>Alliance</th>
<th>Affiliation</th>
<th>Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reap Economies of Scale and Cost Savings</td>
<td>3 ⭐⭐⭐⭐⭐</td>
<td>3 ⭐⭐⭐⭐⭐</td>
<td>3 ⭐⭐⭐⭐⭐</td>
<td>1 ⭐⭐⭐⭐⭐</td>
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<tr>
<td>Leverage Specialized Expertise</td>
<td>3 ⭐⭐⭐⭐⭐</td>
<td>3 ⭐⭐⭐⭐⭐</td>
<td>3 ⭐⭐⭐⭐⭐</td>
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<tr>
<td>Better Promote Philanthropy and Engage Donors in Region</td>
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<td>Amplify Community Leadership and Program Strategy</td>
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**Legend**
- ⭐⭐⭐⭐⭐ Primary Benefit
- ⭐⭐⭐⭐ Secondary Benefit
- ⭐⭐⭐ Occasional or Long-term Benefit

For Affiliate
- Alliance
- Merger

For Host and Affiliate
- Alliance
- Affiliation
- Merger
IT IS IMPORTANT TO ACKNOWLEDGE THE BARRIERS WHICH CAN MAKE A NEW STRUCTURE DIFFICULT TO REALIZE

- Lack of resources or capacity to invest in change
- Lack of understanding about the partnering options
- Concern over maintaining local focus and identity
- Mismatch between missions of potential partners
- Personality or cultural conflicts
- Inability to get past “non-negotiable” considerations

“People are afraid of change and fail to recognize the value of what a partnership offers. Instead, they are more focused on what they have to give up in order for the partnership to succeed.”

Debra Millican, Office Manager, Community Foundation of the Upper Peninsula

“You don’t go straight from point A to point B. The merger process is a rocky road.”

Greg Avis, former Board Chair, Silicon Valley Community Foundation
### HOW DO YOU THINK ABOUT THE RIGHT OPTION FOR YOUR COMMUNITY FOUNDATION?

<table>
<thead>
<tr>
<th>Decision Factors</th>
<th>Representative Characteristics</th>
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<tbody>
<tr>
<td><strong>Motivation</strong></td>
<td><strong>Alliance</strong></td>
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<tr>
<td></td>
<td>Save costs and leverage resources</td>
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<tr>
<td></td>
<td><strong>Affiliation</strong></td>
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<td></td>
<td>Broaden and diversify platform for philanthropy</td>
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<td><strong>Merger</strong></td>
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<tr>
<td></td>
<td>Expand influence, single voice for greater impact</td>
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<tr>
<td><strong>Identity</strong></td>
<td><strong>Alliance</strong></td>
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<tr>
<td></td>
<td>Preserve distinct identity</td>
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<tr>
<td></td>
<td><strong>Affiliation</strong></td>
</tr>
<tr>
<td></td>
<td>Preserve distinct identity but promote affiliation</td>
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<td></td>
<td><strong>Merger</strong></td>
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<tr>
<td></td>
<td>Create a new or blended identity</td>
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<td><strong>Strategy</strong></td>
<td><strong>Alliance</strong></td>
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<td></td>
<td>Learn from experience, but do not shift strategy</td>
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<td></td>
<td><strong>Affiliation</strong></td>
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<td></td>
<td>Expect to reinforce existing strategy</td>
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<td></td>
<td><strong>Merger</strong></td>
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<tr>
<td></td>
<td>Expect to change strategy and approach</td>
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<tr>
<td><strong>Leadership</strong></td>
<td><strong>Alliance</strong></td>
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<tr>
<td></td>
<td>Focus leadership on highest priorities</td>
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<tr>
<td></td>
<td><strong>Affiliation</strong></td>
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<td></td>
<td>Share control of policy decisions</td>
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<tr>
<td></td>
<td><strong>Merger</strong></td>
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<td></td>
<td>Expect major change in leadership</td>
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COMMUNITY FOUNDATION OF THE UPPER PENINSULA

Established “Service Hub” in 2006 for independent, non-affiliated foundations to receive information management services for a monthly fee.

Clients - save on administrative costs, rely on a trusted entity with back office infrastructure in place, and focus their efforts elsewhere.

CFUP - expand its mission to collaborate with and assist other community foundations

Fee-for-service clients maintain their own identity.

Fee-for-service clients maintain their strategic directions, including continued management of their assets.

Fee-for-service clients maintain their own leadership and focus their efforts on fundraising and grantmaking, leaving the administrative work to Community Foundation of the U.P.
COMMUNITY FOUNDATION OF THE OZARKS

CFO supports 42 affiliates in Missouri.

Motivation

CFO - an effective way to engage in outreach to rural communities and offer administrative and investment support, and address issues on a regional level.

Affiliates – do not have to build up the infrastructure and legal support, but instead focus on the needs of the community through grantmaking.

Identity

Affiliates use the CFO brand. CFO views one of its key responsibilities as helping affiliates with promotional and public outreach.

Strategy

CFO stresses in its communications with affiliates and potential affiliates that the affiliate model can strategically address the long term health of rural communities.

Leadership

Boards of affiliates have the responsibility to develop funds and make grants based on the fact that they know their communities best. CFO, because of its infrastructure, can focus on the accounting and administrative work for the affiliate.
FAIRFIELD COUNTY COMMUNITY FOUNDATION AND GREATER BRIDGEPORT AREA FOUNDATION
In 2008 FCCF and GBAF merged.

Motivation

FCCF - address issues from a regional perspective and serve an important community with high needs.

GBAF - merger offered an opportunity to address a leadership void, continue support of grantees in the area, and attract new donors to support needs in the city.

Identity

Leadership decided to maintain the FCCF name because FCCF was already a significant grantmaker in the Bridgeport area and a well-established organization.

Strategy

A stipulation of the merger for FCCF was GBAF acceptance of the 2007 FCCF strategic plan. To this end, FCCF leadership made several presentations to the GBAF board to get buy-in. The merger reinforced FCCF’s strategic direction, but did not change it.

Leadership

The CEO of GBAF had earlier resigned, creating an opportunity for discussions to move forward. Additionally, a seat on the merged entity’s board was offered to every GBAF board member. GBAF chair was named vice chair of FCCF.
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ACCESS TOOLS TO HELP YOU THINK THROUGH THE POSSIBILITIES OF A NEW STRUCTURE FOR YOUR FOUNDATION

Should your community foundation consider a new structure?

• Key Questions for Consideration

How do we begin to think about what option is right for us?

• Self-Assessment
• Case Studies
• Details on Success Factors and Barriers for each option

We’ve found the right structure and partner. Now what?

• Due Diligence Overview

THESE TOOLS ARE AVAILABLE IN SEEKING SHARED SUCCESS WHICH CAN BE DOWNLOADED FROM cfinsights.org