the IDEA BEHIND cf INSIGHTS IS SIMPLE

What if EACH community foundation could know what ALL community foundations collectively know?

“Strengthen the social sector by advancing knowledge about philanthropy in the U.S. and around the world.”
A Business Model Clarifies the Ways a Community Foundation Creates, Delivers, and Captures Value and Ideally Aligns With Strategic Goals and Priorities

Create Value

The product portfolio and activities, e.g. DAFs, Agency, Community Leadership, etc.

Deliver Value

The operating capacity and cost structure of the organization, which is primarily staff

Capture Value

The revenue generated to cover the costs, such as administrative fees, distributions from endowments, fundraising, or fee-for-service arrangements
We are the community’s philanthropic institution, our value is inherently clear.

We can rely on our endowment/discretionary funds to cover operations and leadership funding needs.

We’ve been in this business for a long time. We know what works.

We don’t have the time or capacity to evaluate our business model.

As part of the Social Sector we should be mission-driven not profit and revenue driven.

Given our unique circumstances, what works at other foundations won’t apply to us.
A Review of the Business Model Will Generate Insights about Key Strategic Questions and Potential Changes to Consider

For example:

- How to be thoughtful about future areas of growth and investment, particularly in areas with challenging business model implications or less alignment with mission
  - Product growth and focus should be intentional and aligned with mission and strategy
  - Similarly, investments in products and activities should be the result of intentional decisions rather than a lack of information

- How to consider opportunities to enhance programmatic and leadership possibilities in order to grow impact and relationships in the community
  - Clarify the foundation’s leadership role in the community
  - Identify opportunities to build the flexibility needed to support leadership activities and initiatives
  - Determine new terms for accepting new relationships or projects
We’ll Use Four Example Business Model Types to Illustrate the Variation Across the Field and Discuss Some Key Trends

<table>
<thead>
<tr>
<th>Defining Factors</th>
<th>Established Institution</th>
<th>Donor-Focused</th>
<th>Change Catalyst</th>
<th>Rural Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Long-standing community foundation</td>
<td>• Priority is serving donors and growing philanthropic dollars for today – high distribution rate</td>
<td>• Focus on building social sector capacity to address key issues</td>
<td>• Develops charitable resources and addresses multiple communities’ needs across the region</td>
<td></td>
</tr>
<tr>
<td>• Focus on building permanent philanthropic resources for the region</td>
<td>• Lean business model with most assets in non-endowed funds and few discretionary dollars</td>
<td>• Significant share of capacity devoted to initiatives and leadership</td>
<td></td>
<td></td>
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<tr>
<td>• High percent of assets in endowed &amp; discretionary funds</td>
<td>• Donors interested in legacy gifts, supporting discretionary funds, &amp; multi-generational giving</td>
<td>• Seeks to create buy-in and support by proactively engaging donors in foundation priority issue areas</td>
<td></td>
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</tr>
<tr>
<td>• Relatively high percent of deceased donors</td>
<td>• Emphasis on developing ultra high net worth, active donors</td>
<td>• Serves a diverse donor base – different interests/needs, financial capacities, community affiliations</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Donor Relationships</th>
<th>• Offers an array of products, with emphasis on building endowment &amp; planned giving</th>
<th>• Heavily concentrated in donor-advised, corporate funds, &amp; fee-for-service</th>
<th>• Manages products to cover costs</th>
<th>• Offers a wide array of products, subsidizing some because they are the only entity offering that product</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Often several supporting/affiliate organizations</td>
<td>• Deemphasize products that do not cover costs</td>
<td>• Revenue streams to fund leadership efforts (e.g., Civic Leadership Fund, funded initiatives)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product/Service Emphasis</th>
<th>• Deeply rooted in community, invested in long-term programs and systems change</th>
<th>• Servant leadership - support and inform donors in their self-identified leadership efforts</th>
<th>• Clearly articulated agenda for community leadership and initiatives</th>
<th>• Involved in a range of initiatives (often small scale/grassroots) in multiple communities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Serves as convener, key stakeholder, and funder of leadership efforts</td>
<td></td>
<td>• Leads the way &amp; seeks innovative partnerships with donors, non-profits, public sector, &amp; others</td>
<td>• Seeks to align support and capacity to address regional issues</td>
<td></td>
</tr>
</tbody>
</table>
The Asset Mix For Each Foundation Type Is Distinctly Different

% of Total Assets by Product
Capacity Dedicated to Products and Activities Reflects Differing Priorities

% of Total Costs by Product

Established Institution
- Other: 16.2%
- Community Leadership/Initiatives: 8.3%
- Fee-for-Service: 3.0%
- Other: 6.9%
- Other: 24.6%
- Other: 25.7%
- Other: 10.1%
- Other: 5.3%

Donor-Focused
- Other: 6.6%
- Community Leadership/Initiatives: 14.7%
- Fee-for-Service: 2.7%
- Other: 6.6%
- Other: 62.3%
- Other: 4.4%
- Other: 1.3%

Change Catalyst
- Other: 3.6%
- Community Leadership/Initiatives: 50.0%
- Fee-for-Service: 4.6%
- Other: 2.4%
- Other: 15.8%
- Other: 15.0%
- Other: 1.3%

Rural Regional
- Other: 8.8%
- Community Leadership/Initiatives: 18.1%
- Fee-for-Service: 7.0%
- Other: 9.0%
- Other: 8.2%
- Other: 16.3%
- Other: 3.1%
- Other: 16.3%
- Other: 19.5%
- Other: 3.4%
- Other: 6.6%
Each Foundation Type Funds Its Priorities With A Different Revenue Mix

% of Total Revenue by Source

- Established Institution:
  - Admin Fee Revenue: 99.7%
  - Other Income: 0.3%

- Donor-Focused:
  - Fee for Service Revenue: 0.6%
  - Admin Fee Revenue: 16.0%
  - Other Income: 1.1%
  - Interest Income: 2.1%

- Change Catalyst:
  - Fee for Service Revenue: 2.3%
  - Admin Fee Revenue: 9.9%
  - Other Income: 2.3%
  - Interest Income: 4.1%
  - External Gifts/Grants for Operations: 37.6%

- Rural Regional:
  - Fee for Service Revenue: 2.3%
  - Admin Fee Revenue: 89.9%
  - Other Income: 1.1%
  - Interest Income: 5.3%
  - External Gifts/Grants for Operations: 1.2%

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Established Institution

- Changing donor bases and expectations require new approaches to development and donor relations
- Increased competition and challenges to endowed philanthropy threaten the traditional role of community foundations
- Shift from role as funder and convener to collaborator

Donor-Focused

- Need to differentiate from commercial DAF providers
- Lack of endowment or discretionary funds requires creativity and efficiency in managing funds
- Make strategic decisions about where to invest

Change Catalyst

- Grow sustainable funding source(s) for leadership and initiatives
- Easy to become over-extended
- Avoid straying too far from community foundation roots

Rural Regional

- Being “everything to everyone” is unsustainable
- Working with lots of small donors and small communities with limited resources is time intensive
- Can be challenging to align leadership priorities across multiple communities
There Are Many Tools Available to Help Community Foundations Understand Their Business Model and Adapt to Meet Changing Needs

Let's look at two that work well together . . .

Business Model Canvas

Activity-Based Costing
The Canvas Helps a Foundation Visualize and Articulate Each Component of Its Business Model
Through An Iterative Process, the Canvas Helps Create an Adaptive, Concise Model That Reflects Current Conditions and Future Aspirations

https://canvanizer.com/new/business-model-canvas
Activity-Based Costing Enables a Foundation To Better Understand the True Cost of Products and Services

- Activity-Based Costing (ABC) allows organizations to determine the fully-loaded cost associated with each product or service.

- Rather than considering volume alone (i.e., number of donor advised funds) ABC takes into account non-volume related characteristics such as allocations of administrative overhead.

- First activities are identified and defined, then cost data is gathered and traced to activities, finally costs are allocated to products or services based on their utilization of activities.
100% of the Foundation’s Staff Time, Cost and Other Expenses Are Assigned to a Matrix of Activities and Products

<table>
<thead>
<tr>
<th>Cost Matrix</th>
<th>Agency</th>
<th>Designated</th>
<th>Donor Advised</th>
<th>FOI</th>
<th>Scholarships</th>
<th>Planned Giving</th>
<th>Fee for Service</th>
<th>Initiatives</th>
<th>Leadership</th>
<th>…</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquiring or Establishing a New Fund or Gift</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
</tr>
<tr>
<td>Maintaining Funds</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
</tr>
<tr>
<td>Making Grants</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
</tr>
<tr>
<td>Providing Non-Grant Services to the Community</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
</tr>
<tr>
<td>Other Staff Activities</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
<td>$Y</td>
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Products Defined by Community Foundation

Staff costs are assigned to activities and products based on reported time, weighted by individual salaries and including taxes and benefits.
Once Staff Costs Have Been Assigned, Direct and Indirect Foundation Costs Are Allocated Across the Matrix of Activities and Products

Allocate *Direct Costs* such as events, publications, or investment management consultants to activities and products based on specific allocation rules.

Allocate *Indirect Costs* such as occupancy and office expenses to activities and products based on the distribution of staff time.

The complete matrix of products and activities includes staff, direct and indirect costs for each activity and product.
The Analysis Includes an Assessment of the Overall Business Model

Example: Subsidy vs. Contribution by Product

- **Surplus**
  - Designated: $254K
  - Unrestricted & FOI: $209K
  - DAF - Endowment: $91K
  - Scholarships - Board: $65K
  - Fee for Service: $34K

- **Subsidy**
  - Deferred Vehicles: ($7)K
  - Geographic Affiliates: ($22)K
  - Organization: ($40)K
  - Fund Raising Funds: ($43)K
  - DAF - Non Endowed: ($106)K

- **Investment**
  - Community Leadership: ($588)K

**Fee-Based Products**

**Leadership Activities**
The Analysis Also Includes Product-Level Details the Community Foundation Is Most Interested in Exploring

Example: A Closer Look at DAFs

Dotted lines represent breakeven fund sizes

Average Fund Size:
- Non-Permanent, Non-Invested: $42k
- Non-Permanent, Invested: $64k
- Permanent: $142k

DAFs managed by Foundation as of 12/31/2013

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Comparisons to Appropriate Peers Provide Context

Example: Community Leadership Revenues and Costs

<table>
<thead>
<tr>
<th>Community Leadership Costs and Revenues</th>
<th>CF 1</th>
<th>CF 2</th>
<th>CF 3</th>
<th>CF 4</th>
<th>CF 5</th>
<th>CF 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Total Cost</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td>Total Community Leadership Surplus or Subsidy</td>
<td></td>
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COMMUNITY LEADERSHIP COSTS AS % OF TOTAL ADMINISTRATIVE COSTS

42%  23%  30%  32%  15%  25%

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Questions?

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