

Strengthening Community Foundations

Through the use of new data on costs, donor preferences and competition

by John V. Kania

The past year has been a wrenching one within the community foundation field as community foundations have adjusted to lower annual revenues brought about by declines in endowment. Responding prudently to these leaner times, many community foundations have had to reduce their costs significantly. This has further increased the pressure to deliver more services with fewer resources. More than ever, community foundations find themselves caught between pursuing their missions and balancing their budgets.

Worse still, community foundation leaders have had to make critical strategic choices without basic information about their costs, customer preferences, or competitive positioning. Many questions have long remained unanswered, such as:

- 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?
- What existing and new services might donors be willing to pay for?
- In an increasingly competitive market, how does the foundation best differentiate itself to potential donors?

For the past year, FSG has been engaged in a series of studies devoted to providing the field with data that would move the dia-

logue on these questions from speculation to more concrete ground. Taken together, this research spells out a new model for the sustainability of community foundations and a new set of opportunities for success in today's philanthropic marketplace. Perhaps most importantly, the research provides community foundations with key data and tools to learn from each other and become more intentional in setting the strategy for the foundation.

This newsletter provides background on the scope and methodology of FSG's research.

Our findings will be presented at the Council on Foundation's Annual Community Foundation Conference in Baltimore, and through a white paper which will be available at the conference or from the FSG website in late October.

Study Methodology

FSG began, last January, to develop a framework and a data set that would enable community foundations to understand the context necessary to make effective strategic decisions. This work was done in collaboration with ten different community foundations and the Community Foundation Leadership Team for the Council on Foundations and Community Foundations of America. The need for hard facts was clear in three areas:

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FSG News

European Office

FSG has moved into its new Geneva offices:

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For more information, please call Marc Pfitzer, Vice President.

A Growing Team

We are delighted that two new consultants have joined our firm.

Paul Lee joined us after three years with McKinsey & Company. His non-profit experience includes field work in microenterprise development in Africa as well as negotiations regarding the provision of antiretroviral drugs to African and Caribbean states.

Paul holds an M.A. in International Policy Studies and a B.A. in International Relations from Stanford University.

Abby Pelcyger joined us from Charles River Associates, Inc. where she focused on strategy and evaluation. Her non-profit experience includes Citizen Schools and CRA Community Service Committee.

Abby holds a B.S. in Chemical Engineering from MIT.

Congratulations

Congratulations to Fay Hanleybrown on the birth of her daughter Zanthé Ella Hanleybrown. Fay will be returning to our San Francisco office in January.

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- First, community foundations needed to determine the true cost to the organization of the different services they currently provide – and to be able to compare these costs, on a consistent basis, to those of other community foundations.
- Second, they needed to better understand their donors' preferences – which features are most appealing, which services are donors willing to pay for, and how price sensitive are they?
- Third, community foundations needed to better understand the competition they face from commercial gift funds and professional philanthropic advisors, in order to learn from others' successes and adapt to the changing philanthropic marketplace.

Researching each of these areas required a separate, sophisticated methodology, so FSG undertook a three-part study:

Cost/Revenue Study. To provide community foundations with an effective and consistent way of understanding their costs, FSG customized the standard approach to *activity based cost accounting* to reflect community foundations' unique organizational characteristics. Working closely with our clients, FSG identified 80 core activities that all community foundations perform, regardless of different organizational structures or terminology, plus additional activities unique to each foundation. We also identified distinct products, and then worked with all staff to map their time and all other costs against these activities and products. This methodology enables a community foundation to understand the true cost to serve, as well as the contribution or subsidy, for each of the foundation's product areas – whether fee-based products (e.g., donor advised funds, supporting organizations, scholarship funds) or community leadership products (e.g., convening, community needs assessments and special initiatives). FSG has applied this methodology to nine community foundations to date, ranging in asset size from \$200 million to \$1.3 billion, providing each foundation with a complete profile of their costs and revenues.

The nine community foundations that completed this study are: Arizona Community

Foundation, Foundation for the Carolinas, The Cleveland Foundation, The Columbus Foundation, The Greater Milwaukee Foundation, The Kalamazoo Foundation, The New Hampshire Charitable Foundation, The Philadelphia Foundation and The San Francisco Foundation.

Having employed the same methodology for all nine foundations, FSG can now provide critical information to the field that will be relevant to all community foundations. First, FSG has assembled a detailed, easy-to-follow template and computerized model for community foundations that wish to analyze their costs and revenues on their own. Second, our analysis of the comparative findings across all nine foundations has enabled us to identify key factors that increase or decrease product cost and enhances the foundation's sustainability.

Market Research into Donor Priorities. To research donor priorities, and to understand which services donors truly value and what they are willing to pay, FSG surveyed both donors and professional advisors in six community foundation markets using a quantitative market research technique called *conjoint analysis*.

Conjoint analysis is regularly used to assess the tradeoffs that purchasers make between price and product or service features. Rather than directly asking respondents what they will pay, or how they rate the importance of one feature against another, conjoint analysis forces purchasers to make tradeoffs among a set of price and product features by conducting choice simulations, which can then be statistically analyzed to identify the importance of pricing and of each component feature separately. Donors and advisors in each of the six community foundation markets were asked to rank the desirability of 15 different donor advised fund product offerings which varied in their pricing and level of service (e.g., philanthropic advice, donor events, investment flexibility and grant processing speed). 445 donors and 184 professional advisors across the six markets participated in the study, which provided a large enough sample to draw statistically valid conclusions with a 95% confidence level.

The six community foundations that par-

ticipated in the conjoint study are Arizona Community Foundation, Foundation for the Carolinas, The Columbus Foundation, The Kalamazoo Foundation, The Philadelphia Foundation and The Community Foundation of Louisville.

Additional questions on the survey, beyond the conjoint instrument, explored such important areas as donors' willingness to pay for philanthropic advice *a la carte* and the likelihood of leaving a bequest to the foundation from their estate. Again, FSG compared results across the different community foundation markets to develop broader insights for the field.

National Study of Philanthropic Advisors.

The advice and services that philanthropic advisors are paid to provide to their clients parallel in many ways the advice that community foundations offer to their donors for free. FSG wanted to understand if this was a growing and profitable market that community foundations might learn from to create a more sustainable revenue model for themselves. Commissioned by the COF Community Foundation Leadership Team to study this area, FSG spent several months conducting a national analysis of the philanthropic advisor marketplace, interviewing 35 philanthropic advisors, from solo practitioners to professional services firms.

The results provide useful and provocative insights into alternative pricing structures (such as tiered pricing) that community foundations might consider to better align their income with the cost to serve specific donors or supporting organizations. The analysis also offers new information about how community foundations might serve private foundations – one primary clientele of philanthropic advisors. Finally, through analyzing the costs to serve and donor profiles of both philanthropic advisors and commercial gift fund competition, FSG can offer the field new data concerning how community foundations compare to commercial competition in the philanthropic marketplace.

Sharing the Results

When we began this series of studies last January we were confident that each

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individual study – the Cost/Revenue Study, the Market Research into Donor Priorities, and the National Study of Philanthropic Advisors – would yield useful data and insights on their own. In fact, this has turned out to be the case. What is even more exciting is what the field can learn from integrating these three avenues of exploration, bringing together hard data about costs, customers and competition to make more informed strategic decisions. Our close collaboration with ten different community foundations and the Community Foundation Leadership Team has enabled FSG to integrate these findings in a way that should be relevant to all community foundations, regardless of size, geography or asset mix.

Rather than release the study results separately, FSG is working to prepare an integrated report that distills their implications in time for the Fall Community Foundation Conference in Baltimore. At our sessions there, we will share the integrated data and conclusions of these studies, confront some of the myths that our findings refute, and offer our perspectives on how community foundations can redefine their opportunities for success in today's marketplace. These findings will also be made available through an FSG white paper commissioned by the Community Foundation Leadership Team that will be released at the Fall Conference and simultaneously available from our website at www.foundationstrategy.com.

FSG's Sessions at the Fall COF Community Foundation Conference

Strengthening Community Foundations: Redefining the Opportunities

Monday, October 27th

9:00 a.m. – 10:30 a.m.

At this session, FSG will present detailed comparative findings from the cost analysis of 9 community foundations, commercial gift funds and other philanthropic advisors, supplemented by quantitative market research about what features donors value – and which they will pay for. Taken together, the research spells out a new model for the sustainability of community foundations and a new set of opportunities for success in today's marketplace.

Costs are Cool: How to Understand Product Costs and Improve Performance

Tuesday, October 28th

9:00 a.m. – 10:30 a.m.

This session will explain a step-by-step methodology, commissioned by the Council on Foundations and developed by FSG, that will enable any community foundation to better understand its costs and revenues, and find ways to improve its financial sustainability.

Finance/Technology/Human Resources Roundtables

Tuesday, October 28th

4:00 p.m. – 5:30 p.m.

FSG consultants will be facilitating several roundtables.

FSG Reception: An Opportunity for Dialogue and Refreshment

Monday, October 27

6:15 p.m. – 7:15 p.m.

For those who would like to spend additional time discussing the results and implications of FSG's recent work, we will be hosting an informal cocktail party on Monday evening of the Fall conference. If you would like to attend, please call Dawn Allen at 671-357-4000, x102 or please stop by the Waterview Ballroom, Section B. Please check reader boards throughout the hotel for any changes.

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About FSG

FSG is a professional consulting firm exclusively dedicated to helping community, corporate, private and family foundations increase their effectiveness.

We offer objective analysis and confidential counsel on strategy, organizational alignment, strategic communications, governance, leadership, foundation-wide assessment, and community foundation donor development.

We invest in innovative ideas and we partner with our clients to help them do good, better.

For more information call us or visit our web site.

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Perspectives *on Community Foundations*

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