

FSG Cost-Revenue Model and the FSG Interactive Strategy Model: A Comparison

Foundation Strategy Group has developed two tools to help community foundations make more informed decisions to enhance their operational sustainability:

- **FSG Cost-Revenue Model** (released Fall 2003)
- **FSG Interactive Strategy Model (ISM)** (released Fall 2004)

Both of these tools are available for free on FSG's web site (www.foundationstrategy.com).

Each of these tools serves a unique purpose for community foundations. It is important for community foundations to understand the purpose and benefits of each tool in order to determine how they can best take advantage of these resources.

Comparison of These Two Tools

Both the cost-revenue model and the ISM provide insight on product and foundation-level sustainability. However, the cost-revenue model focuses on the prior fiscal year while the ISM is concerned with potential future performance. These two tools are compared further below.

Comparison of Tools

	Cost-Revenue Model	Interactive Strategy Model
Description	<ul style="list-style-type: none"> ▪ A model for calculating a foundation's actual total costs and revenues by product based on activity based costing accounting methods 	<ul style="list-style-type: none"> ▪ A strategic forecasting model which forecasts product and foundation-level costs, revenues and assets based on user-selected strategic, market and operational changes
Purpose	<ul style="list-style-type: none"> ▪ Provide foundations insight on the current profitability of individual products in order to inform strategic and operational decision making 	<ul style="list-style-type: none"> ▪ Provide foundations the ability to model the potential integrated impact of specific strategic, market and operational changes
Temporal Focus	<ul style="list-style-type: none"> ▪ Prior fiscal year 	<ul style="list-style-type: none"> ▪ Future 10 years

Benefits of Using Both Tools

The cost-revenue model and the ISM have been designed to work together to provide community foundations a full picture of their past and future financial performance. The cost-revenue 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 situation 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 cost-revenue model for its most recent fiscal year, it can leverage its efforts in two ways. First, the foundation can reuse staff survey results from the cost-revenue model and avoid having to survey their staff once again. Second, it can enter the

cost-revenue model's activity category sub-total results (see *explanation at right*) 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.

Activity Categories Explained

The FSG cost-revenue model divides costs into over 80 activities. These activities are grouped into five activity categories, which are also used by the ISM:

1. Acquiring / establishing a new fund or gift
2. Maintaining funds
3. Making grants
4. Providing non-grant services to the nonprofit community
5. Other

However, the Cost-Revenue Model is Not a Pre-requisite for Using the ISM

If a community foundation has not completed the cost-revenue 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.

A detailed look at how the data entry and calculation process differs depending on if the foundation has completed the cost-revenue model is outlined below.

Comparison of ISM Data Requirements and Calculations

Cost Type	If the Foundation HAS Completed the Cost-Revenue Model	If the Foundation HAS NOT Completed the Cost-Revenue Model
Staff	<ul style="list-style-type: none"> ▪ User refers to the surveys that staff completed for the cost-revenue model and totals them by activity category using the ISM Staff Survey Template ▪ User enters totals into the ISM which uses this data without alteration 	<ul style="list-style-type: none"> ▪ User has staff fill out a brief survey (much shorter than the cost-revenue survey) indicating how they spend their time across products and activity categories ▪ User totals completed surveys using the ISM Staff Survey Template ▪ User enters totals into the ISM which uses this data without alteration
Indirect	<ul style="list-style-type: none"> ▪ User enters 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 <i>(note: this is the same allocation method used in the cost-revenue model)</i> 	<ul style="list-style-type: none"> ▪ Same
Direct	<ul style="list-style-type: none"> ▪ User copies the cost-revenue model's 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 <u>able to attribute to specific products</u>, s/he enters this cost by product and activity category ▪ For all other direct costs, s/he enters this cost by activity category only ▪ The ISM allocates this non-product specific direct cost across products using pre-set allocation rules

The ISM Can Provide A Proxy for Cost-Revenue Model Results

The ISM uses the same general approach to cost allocation as the cost-revenue model, albeit at a higher level. As a result, the ISM can provide a reasonably good proxy for what the results of the cost-revenue model might have been for the most recent fiscal year. If a foundation chooses to use this proxy instead of completing the detailed cost-revenue model, however, it needs to understand the following implications:

Potentially less accurate allocation of staff time and staff cost

Like the cost-revenue model, the ISM requires data on how the foundation's staff spends their time across products and activities. However, the ISM requires this information at a much less detailed level: by the five activity categories instead of the full list of over 80 activities. There is a possibility that because staff surveys are not as detailed, they maybe slightly less accurate. However, a full list of the activities that are included within each activity category is provided in the ISM staff survey instructions memo for reference while filling out the survey.

In addition, if staff is unable to allocate the time they spent in an activity category to specific products, their time may be allocated for them in a more general fashion than in the cost-revenue staff survey. This is because if a staff member could not allocate their time across specific products in the cost-revenue survey, each activity has a different allocation rule that is used to spread this time. The ISM uses one allocation rule for each of the five activity categories. As a result, if staff members don't specify how their time is spent across products, it could be allocated across products in a less granular fashion than in the cost-revenue model.

Community foundations need to be aware of this trade-off, because the ISM will provide a "ballpark" approximation of cost-revenue results, not an exact match. When FSG compared one foundation's cost-revenue model staff time results against how the ISM would have calculated the results, the ISM's average staff time allocation per product is about 80% of the detailed results of the cost-revenue model.

Potentially less accurate allocation of direct costs

Direct costs that the foundation is unable to attribute to specific products will be allocated across products by the ISM using more general allocation rules than those used by the cost-revenue model. This is because the cost-revenue model details direct costs by over 80 activities, each with a different allocation rule. The ISM is a strategic forecasting model, not a detailed cost allocation model, so it only details costs by the five activity categories, each of which has one allocation rule. As a result, some portions of direct costs could be allocated across products in a less granular fashion than in the cost-revenue model.

More Information Is Available For Each Tool

Detailed user guides for both the cost-revenue model and the ISM are available on FSG's web site:

- Cost-revenue model: http://www.foundationstrategy.com/application_tools.html
- ISM: <http://www.foundationstrategy.com/ISM.html>