

Activity-Based Costing Analysis

An overview

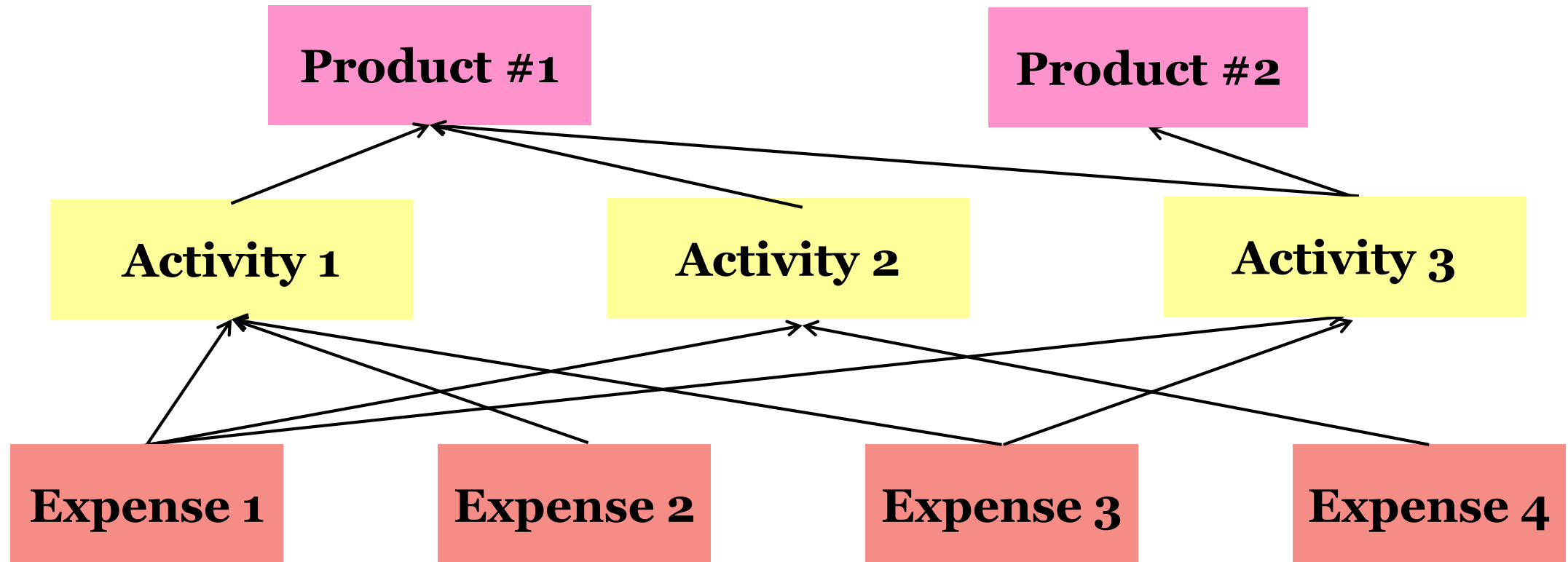


CF INSIGHTS

by **Candid.**

Activity-Based Costing enables the foundation to better understand the true costs and revenues of its products and services.

First, products are identified and defined, then cost data is gathered and traced to specific activities before being allocated to products or services based on their utilization of activities.



Methodology

100% of the foundation's staff costs and other expenses are assigned to a matrix of activities and products.

Staff Costs	Agency Funds	Designated Funds	Donor Advised	Field of Interest	Supporting Organizations	Scholarships	Unrestricted	...
Acquiring or Establishing a New Fund or Gift	\$	\$	\$	\$	\$	\$	\$	\$
Sub-activity A	\$	\$	\$	\$	\$	\$	\$	\$
Sub-activity B	\$	\$	\$	\$	\$	\$	\$	\$
Maintaining Funds	\$	\$	\$	\$	\$	\$	\$	\$
Sub-activity A	\$	\$	\$	\$	\$	\$	\$	\$
Sub-activity B	\$	\$	\$	\$	\$	\$	\$	\$
Making Grants	\$	\$	\$	\$	\$	\$	\$	\$
Providing Non-Grant Services to the Community	\$	\$	\$	\$	\$	\$	\$	\$
Other Staff Activities	\$	\$	\$	\$	\$	\$	\$	\$

Staff costs are assigned to activities and products based on reported time, weighted by the total compensation by each individual.

Methodology

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

Staff Costs	Agency Funds	Designated Funds	Donor Advised	Field of Interest	Supporting Organizations	Scholarships	Unrestricted	...
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Sub-activity A	\$	\$	\$	\$	\$	\$	\$	\$
Sub-activity B	\$	\$	\$	\$	\$	\$	\$	\$
Maintaining Funds	\$	\$	\$	\$	\$	\$	\$	\$
Sub-activity A	\$	\$	\$	\$	\$	\$	\$	\$
Sub-activity B	\$	\$	\$	\$	\$	\$	\$	\$
Making Grants	\$	\$	\$	\$	\$	\$	\$	\$
Providing Non-Grant Services to the Community	\$	\$	\$	\$	\$	\$	\$	\$
Other Staff Activities	\$	\$	\$	\$	\$	\$	\$	\$

The complete matrix of products and activities includes staff, direct and indirect costs for each activity and product

Key Questions

Study findings answer a wide range of questions and inform major strategic and operating decisions.

- How much do our different offerings really cost?
- Which products make money for the foundation and which do we subsidize?
- How do our costs compare with other foundations?
- How do we ensure that we have the right investments in donor engagement and community leadership, operations, etc to maximize impact?
- Where can we cut back spending while still supporting our mission?
- In an increasingly competitive market, how does the Foundation best position itself for sustainability?

Each foundation should determine at the outset how the analysis can best inform future decision making.

Applying the Findings

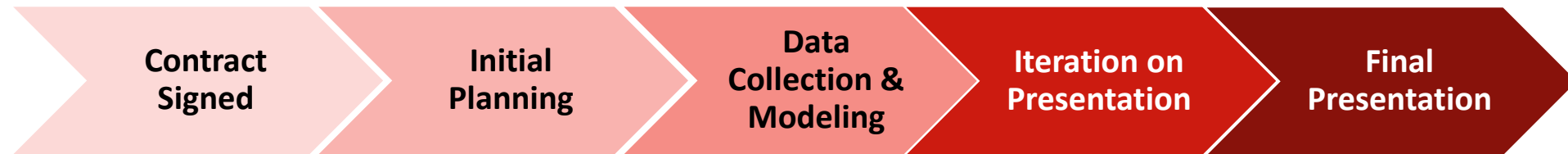
Each foundation reacts differently to findings, but each makes major decisions that impact its strategy and operations.

- Foundations react to similar results in very different ways based on their mission and values, history, asset base, and position in the marketplace
- Foundations have made or major changes as a result of the analysis:
- Reprioritizing select products
- Changing fee levels to more appropriately match the cost of service for different products
- Either raising or lowering fees, in different cases
- Differentiating fees for donors interested in enhanced services
- Decreasing customization and increasing standardization
- Examining processes to cut costs and redirect staff effort to the most valuable activities

The best strategic decisions result not only from an understanding of costs and revenues – but also from an understanding of the Foundation's mission and a perspective on the external environment in which the Foundation operates.

Engagement Flow – High Level

The Majority of Engagements Are Driven By a Presentation To the Board As a Final Deliverable



A work plan reflects the tasks - the length of each varies on the complexity of the community foundation and level of engagement

Sample for large community foundation where CF Insights does the modeling

High-Level Project Deliverables	February	March	April	May	June	July
Project Planning						
Kick off – Senior Staff						
Finalize Products and Activities		March 6				
Kick off – Staff		March 13				
Conduct Staff Time Survey Sessions		March 15, 21, 28				
Quality Check Staff Time Surveys (all TCF managers)			April 12			
Collect Financial Data						
Populate Model						
Analyze Findings						
Draft Findings and Iterate with Senior Staff						
Finalize Presentation/Present to Appropriate Audience						

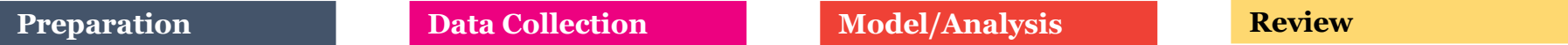
Engagement Options

Month	Deliverable	Task Lead - \$40K option	Task Lead - \$25K option
Month 1	Kickoff and product definition	CF Insights w/involvement of senior management	CF Insights w/involvement of senior management
Month 1	Calendar and prep staff time surveys	Foundation	Foundation
Month 2	Conduct Staff time surveys	CF Insights	Foundation
Months 2 & 3	Collect Financial/Operating Data	Foundation	Foundation
Month 4	Model Data	CF Insights	Foundation
Months 5 & 6	Analyze Data/Create Drafts	CF Insights (w/feedback from senior management)	CF Insights (w/feedback from senior management)
Month 6	Finalize Analysis and Present	CF Insights	CF Insights

CF Insights offers all CF Insights members technical assistance through this process.

Approximate Time Allocations For the Activity-Based Costing Analysis

Four Phases of Work:



Work Steps	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13
Establish team roles	█												
Discuss workplan with team		█											
Kickoff with staff			█										
Identify products to include		█	█										
Customize model and staff survey	█	█	█										
Gather foundation data		█	█	█	█	█							
Schedule staff survey			█										
Complete staff surveys				█	█	█							
Categorize operating expenses						█							
Customize allocation rules					█	█							
Apply Compiler OR Allo-Gator*						█	█						
Apply model/Perform analysis						█	█	█	█	█	█	█	
Review initial results									█	█	█	█	
Determine implications and develop recommendations										█	█	█	
Compare to other foundations										<i>ongoing</i>			
Prepare & deliver Board presentation												█	█

*Available to CF Insights members

Activity-Based Costing Analysis At a Glance

For a complete how-to, access the User Guide at cfinsights.org

Take some important steps to ensure success before you begin.

Read the User Guide, assign a champion who will have key responsibilities for moving the analysis forward, determine how and when to involve your Board and staff, and frame key questions you are looking to answer.

Total Time to Complete: Approximately 3 – 6 months, depending on the amount of time staff has available to devote to data collection and analysis

1

Set project goals and timeline with staff and board

Tools to Help:

- Sample Project Timeline
- Kickoff Memo to Staff
- Kickoff Presentation to Staff and Board

2

Define products to analyze and discuss methodological considerations

Tools to Help:

- See the user guide for best practices on product identification

3

Collect data (activity and assets info for all products, costs, revenues)

Tools to Help:

- See the user guide for a complete list of data you will need

4

Conduct staff time survey

Tools to Help:

- Staff Time Survey
- Staff Survey Instructions
- Staff Survey Overview Presentation

5

Assemble the model

Tools to Help:

- Staff Survey Compiler or Allo-gator*
- ABC Model

*Allo-gator available to members only

6

Analyze data and present findings

Tools to Help:

- Results Presentation Tool
- Peer data from CF Insights database*

*Membership required

Access the tools at cfinsights.org.

CF Insights offers all CF Insights members technical assistance through this process.

Spreadsheets and Data

There are three customizable spreadsheets you will use for this analysis. See the User Guide for a complete list of data you will need.

Excel Workbook	Workbook Purpose	Inputs	Outputs	Next Step
Staff Time Survey	Staff allocate 100% of time over one year to activities and then to products where possible	Staff time – proportional, as %	One timesheet for each staff member	Enter individual time sheets into Staff Time Compiler/ Allo-gator
Allo-gator*	Serves three purposes: <ul style="list-style-type: none"> • Allocates staff time to products where staff were unable to do so • Converts % of time to \$ • Aggregates individual staff time into Total Staff Costs by Department and Total Foundation Staff Costs 	Staff time survey spreadsheets from each member of staff Personnel cost for each staff person (salary + benefits) Product-level data (e.g. assets, gifts, grants, etc.)	Total Foundation Staff Costs by Product and Activity (allocated by staff and by allocation rules)	Enter Total Foundation Staff Costs into ABC Model
ABC Model	Combines all types of cost and revenue data by product in one place, for the whole CF and for each individual product	Total Staff Costs Direct Costs by Product and Activity Total Indirect Costs (e.g., rent) Product-level data (e.g. assets, gifts, grants, etc.) Total Revenue by Product	Final Results on Calculations Tab	Analyze Results! See Results Presentation Tool for some ideas

Clarity on Product-Level Data - The model requires the collection of product-specific data points including assets, gifts, grants, number of funds, etc. that drive the **allocation rules in the Allo-gator**. Each activity has a suggested allocation rule, which is used to spread time assigned to an activity to products where staff were unable to do so. For example, it would be difficult for the Finance team to determine how to spread their time for the activity “Providing General Accounting to the Foundation” to products. Thus, the allocation rule will proportionally spread the time assigned to the activity by staff to the products based on (in this case) the assets of each product. The CF’s product that has the most assets will have the most time assigned to it for this activity. If, however, the staff is able to spread the time for an activity to products, then the rule is overwritten. The product-level data is also used to **calculate specific metrics in the ABC Model** for each product on the Calculations tab, such as average fund size, fee revenue per funds, # of grants/gifts per fund, etc.

*Only CF Insights members have access to this tool. Non-members have access to the Staff Time Compiler, which aggregates staff time, but does not allocate staff time to products based on the allocation rules.

Thank you.

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