



CONNECTCOLLABORATE *Innovate*

Modeling Your Organization's Future

CLA National Association Conference

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Learning Objectives

- Describe how financial modeling tools can enhance business decisions
 - Leave with new ideas for how you might approach financial modeling within your organization.
 - Learn through a couple example financial models, drawing on pieces that might work for you.
 - Gain a greater understanding of the ways in which financial modeling can inform decisions and test strategies.



Why Use a Financial Model?

- Improve ability to deliver programs, services, and products that address a market need and fulfill your mission.
- Focus time and attention on the things that really matter.
- As a way to engage board members, funders, and an increasingly savvy general public.
- If you don't tell your own financial story someone else will tell it for you.



Table Discussion

1. Does your organization have a financial model?
2. If so, how do you use it to support decision-making?

Who is Your Audience?

And what do they care about?

- Internal: Board, committee members, CEO, director, staff member, volunteer.
- Potential beneficiary, peer organization, key partner, watchdog groups, general public.



What a Financial Model Is...And is Not

A financial model is...

- ...a tool to animate the key drivers of an organization's business model.
- ...only as good as the people and process wrapped around it.
- ...something to be built into the rhythm of your ongoing organizational planning

A financial model is not...

- ...an excuse to show people how complicated your finances are.
- ...one size fits all.
- ...the "answer" to a question.
- ...a budget.





Case Study:

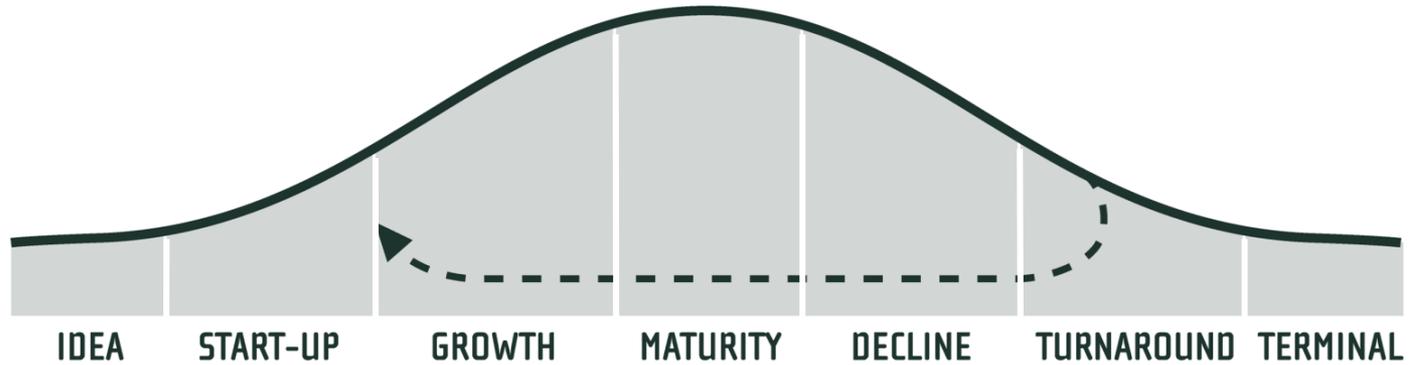
An Association Navigating Rapid Industry Change without a Financial Model

Organizational Profile

- **National professional association**
- **\$12M annual budget**
- **SWOT: Industry consolidation, new leadership, legacy customer base, revitalized offerings, cash, inherited and unknown financial planning methods**
- **All highlighted the need to:**
 - Quickly understand current organizational performance
 - Benchmark product/service pricing against peers
 - Identify what program, product, and service offerings truly cost
 - Reconcile cost + price + value
 - Understand the implications of potential (inevitable) changes



Our Diagnostic Starting Point



Life Cycle Stage



Membership



Programs



Management



Governance



Financial Resources



Systems



“People are where they are. To help them means meeting them right there—not where you wish they were, where they should be, nor where they tell you they are—but, rather, right where they are.”

— Gisela Konopka



The Chosen Path Ahead

Five key components

1. **Financial assessment**
2. **Cost allocation model**
3. **Price benchmarking**
4. **Dynamic pricing model**
5. **Reconciliation of goals and strategic decisions available**



Cost Allocation Model

- Goal:** Create an easy-to-update model that will calculate the total profitability of each program, product, and service based on exported G/L data.
- Data:** Complete year of general ledger detail
Staff time allocation estimates
Key operational statistics
- Process:** Define departments and program, product, and service, charge direct staff time, identify allocation drivers, build the model, review and adjust.



“We generally knew that our expo was subsidizing a number of other programs, but we didn’t know to what extent until we undertook this exercise. The cost model brought clarity and shared understanding to what has financially performed well, what we have been subsidizing, and to what extent.”

- VP of Finance



Cost Allocation Model

	Primary Allocation Method	Secondary Allocation Method (as applicable)	Membership + CLC	Education	Certification	Standards
Employee Search	% total direct expense	0	23,082	25,253	8,857	14,991
Consulting Services	% total direct expense	0	56,121	61,399	21,536	36,450
Dues & Subscriptions	% total direct expense	0	2,250	2,461	863	1,461
Elections	% total direct expense	0	1,622	1,774	622	1,053
Electronic Delivery	% total direct expense	0	145	159	56	94
Legal Services	% total direct expense	0	10,971	12,002	4,210	7,125
Merchant Discount	% total direct expense	0	15,108	16,529	5,798	9,813
Miscellaneous	% total direct expense	0	2,659	2,909	1,020	1,727
SCTE Awareness	% total direct expense	0	2,335	2,554	896	1,516
SCTE Foundation Donated Servic	% total direct expense	0	6,078	6,650	2,333	3,948
Postage/Shipping/Freight	% total direct expense	0	1,255	1,373	482	815
Printing	% total direct expense	0	1,747	1,912	671	1,135
Promotional Marketing	% total direct expense	0	682	746	262	443
Research & Surveys	% total direct expense	0	3,197	3,497	1,227	2,076
Telephone-Landline	time and effort	% total direct expense	7,211	7,594	2,229	4,853
Telephone-Conference Calls	time and effort	% total direct expense	1,235	1,301	382	831
Travel & Entertainment	time and effort	% total direct expense	2,481	2,612	767	1,669
Travel-Staff	time and effort	% total direct expense	20,138	21,208	6,225	13,552
Website	% total direct expense	0	3,314	3,626	1,272	2,153
Depreciation	program personnel size	% total direct expense	68,966	71,722	19,179	50,761
Loss on Disposition of Assets	% total direct expense	0	628	687	241	408
Diversity & Inclusion	% total direct expense	0	469	514	180	305
Office Supplies-General	% total direct expense	0	6,422	7,026	2,464	4,171
Board Meeting-Awards & Plaques	% total direct expense	0	4,608	5,041	1,768	2,993
Building-Maintenance	program personnel size	% total direct expense	17,854	18,567	4,965	13,141
Payroll- Overhead (Operations) Allocation	% total direct expense	0	307,925	336,883	118,162	199,992
Employer Tax	time and effort	% total direct expense	65,513	68,996	20,251	44,089
Employee Benefit- 401K	time and effort	% total direct expense	40,625	42,785	12,558	27,340
Employee Educ- Tuition Reimb.	program personnel size	% total direct expense	5,675	5,902	1,578	4,177
Employee Relocation-Houseing	program personnel size	% total direct expense	12,389	12,884	3,445	9,119
Employee Tenure/Teambuilding	% total direct expense	0	3,372	3,689	1,294	2,190



Cost Allocation Model

	Membership + CLC	Education	Certification	Standards	Expo + Other Events	Leadership Institutes	Total
Total Revenues	\$ 1,930,956	\$ 2,236,739	\$ 522,193	\$ 1,296,981	\$ 4,860,158	\$ 682,699	\$ 11,529,727
Total Direct Expenses	\$ 1,104,985	\$ 1,208,900	\$ 424,023	\$ 717,669	\$ 1,957,978	\$ 565,767	\$ 5,979,322
<i>*Direct expenses DO include direct payroll costs</i>							
Direct Contribution Margin (\$)	\$ 825,971.32	\$ 1,027,839.14	\$ 98,169.85	\$ 579,312.46	\$ 2,902,180.32	\$ 116,932.03	\$ 5,550,405.14
Direct Contribution Margin (%)	42.8%	46.0%	18.8%	44.7%	59.7%	17.1%	48.1%
Total Allocated Expenses	886,216	950,850	304,768	595,594	1,228,750	334,021	4,300,197
Total Expenses	1,991,201	2,159,750	728,790	1,313,263	3,186,727	899,788	10,279,519
Total Margin (\$)	\$ (60,244.73)	\$ 76,989.51	\$ (206,597.70)	\$ (16,281.18)	\$ 1,673,430.81	\$ (217,088.69)	\$ 1,250,208.01
Total Margin (%)	-3.1%	3.4%	-39.6%	-1.3%	34.4%	-31.8%	10.8%
Allocation Drivers							
% total direct expenses	18.5%	20.2%	7.1%	12.0%	32.7%	9.5%	100.0%
% total direct revenues	16.7%	19.4%	4.5%	11.2%	42.2%	5.9%	100.0%
2 step (time and effort, % direct)	24.2%	25.5%	7.5%	16.3%	21.4%	5.2%	100.0%
2 step (personnel size, % direct)	23.5%	24.4%	6.5%	17.3%	23.1%	5.1%	100.0%
Total Expenses per Activity							
<i>Note: see further breakdowns on individual tabs</i>	# Members	# Course Attendees	# Certifications	# Stand. Members	# Expo Attendees	# Participants	
2014 - Total Expenses	1,991,201	\$ 2,159,750	\$ 728,790	1,313,263	3,186,727	\$ 899,788	
2014 - Activities	17,852	2,879	30,158	158	4,245	86	
Total Expenses per Activity	\$ 111.54	\$ 750.17	\$ 24.17	\$ 8,311.79	\$ 750.70	\$ 10,462.65	



“Our biggest surprise through this process was the difference in financial performance between online and onsite education programs. We had always looked at the performance of the education department as a whole; therefore we didn’t realize how profitable online courses were, and how much we were subsidizing in-person learning activities.”

- SVP Operations



Cost Allocation Model

What did the results provide?

- **Clear picture of the financial performance of each department**
- **Delineation within departments of what programs were profitable and what programs required investment from other areas**
- **Common language with which to discuss profitability**
- **Support for efforts to re-think pricing in certain programs**



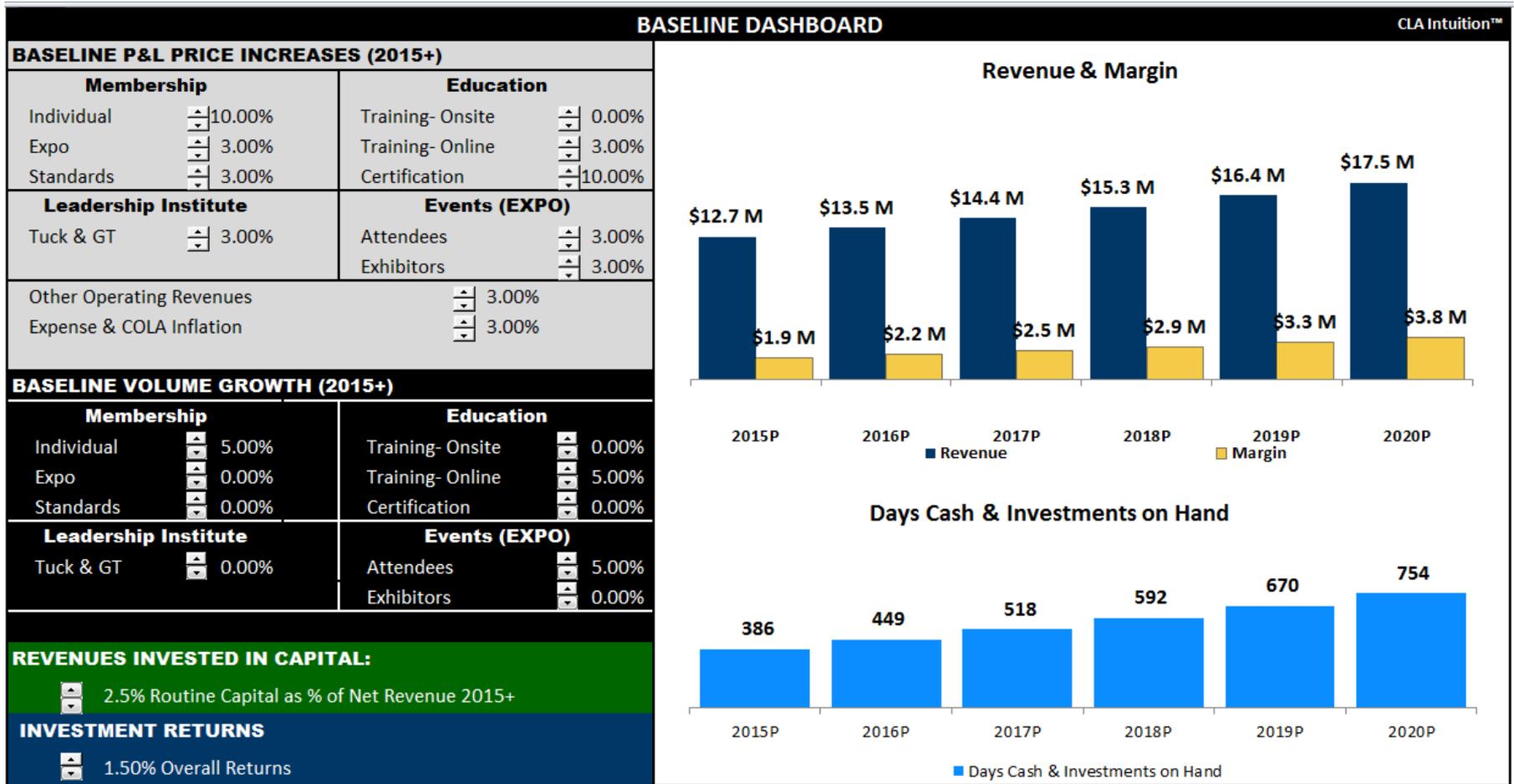
Table Discussion

How does your organization think/talk about “true costs” of running programs or departments?

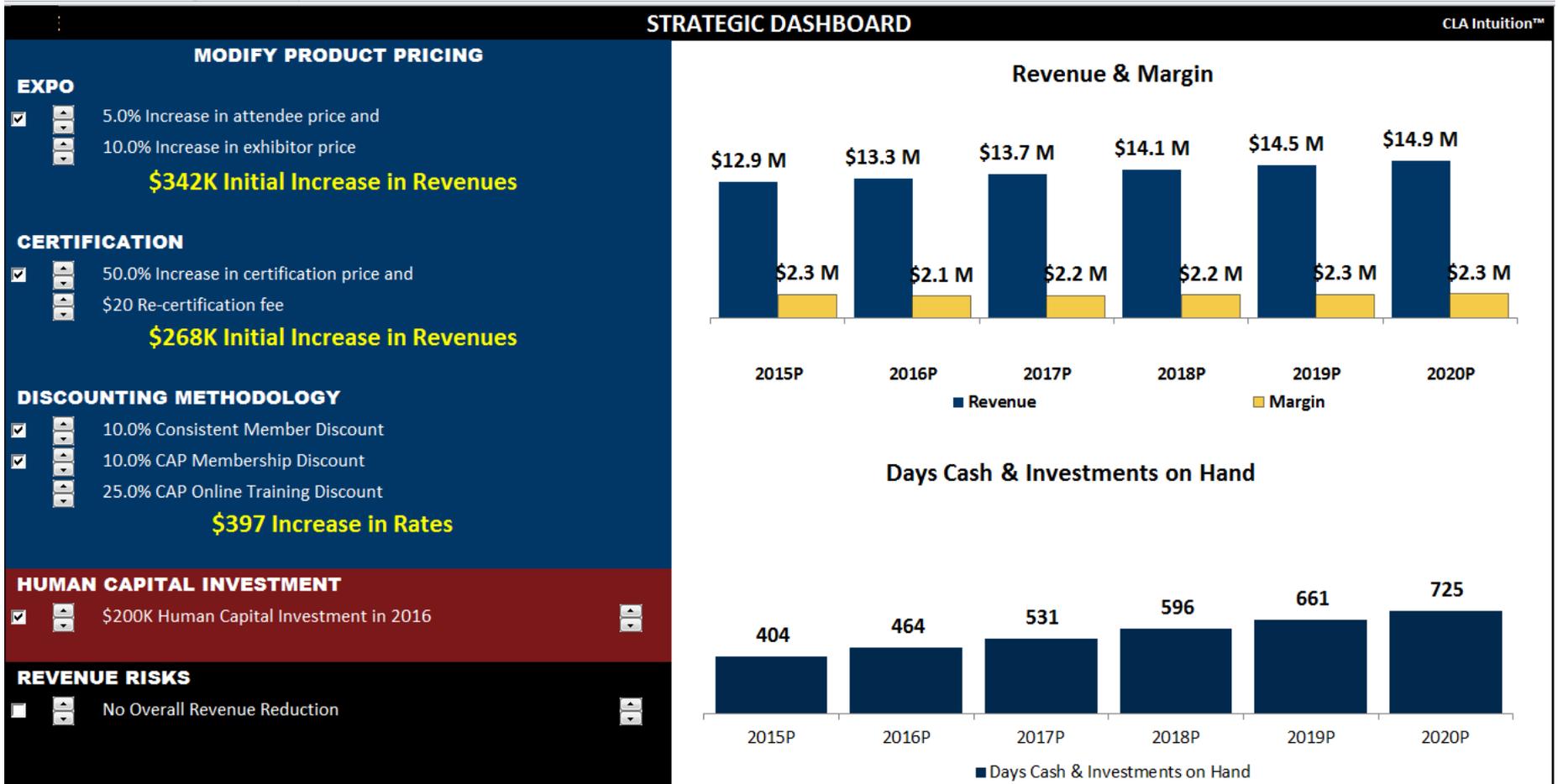
Dynamic Pricing Model

- Goal:** Build an interactive model showing financial implications of changes to baseline operations and strategic options.
- Data:** Basic financial information
Program margins (sourced from earlier cost allocation work)
Organizational goals and key operating metrics
- Process:** Define the economic drivers, changes to status quo, strategic options and useful outputs. Create the model. Iterate.

Dynamic Pricing Model—Baseline Operations



Dynamic Pricing Model—Bigger Moves



Impact: Key Conclusions

- 1. Online courses were significantly subsidizing onsite trainings without adequate reflection of R&D costs.**
- 2. Certifications were priced 50%—200% below peers; pricing wasn't covering full costs.**
- 3. Discounts were being compounded resulting in discounts as high as 57% on some products/services.**



Impact: Key Conclusions (cont'd)

4. **Adopting course corrections could generate \$1.1M—\$1.5M annual increase in cash flows.**
5. **Thoughtful, visual financial modeling can help accelerate board-level decision-making and move hearts and minds.**
6. **All of the above takes commitment, persistence, good data, and open minds.**



“This process has not only helped our organization better understand the implications of options we are evaluating, but also created a common language and understanding around **financial performance, profitability, and ROI.**”
- SVP Operations





Conclusion and Discussion

In Summary

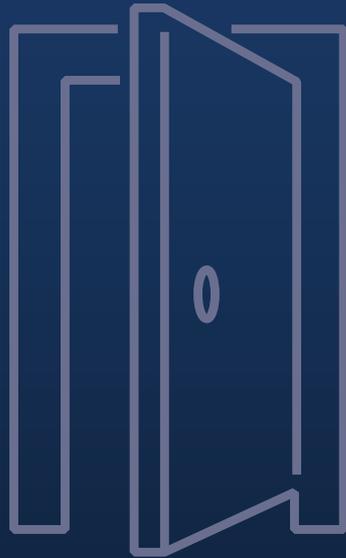
A well-crafted financial model and the process to build it can:

- Bring clarity to the drivers and metrics that matter most to your organization.
- Demonstrate the potential financial impacts of strategies and plans.
- Serve as an adaptive management tool to test ideas and inform decisions.



Group Discussion

What steps could your organization take to advance your existing models or start building/using a financial model?



Questions?

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