



WHITE PAPER

The Financial Business Model as a Key Element of a Financial Business Plan

Submitted by:

The Catalyst Center for Nonprofit Management

an affiliate of:
Bee, Bergvall & Company, PC
Certified Public Accountants
PO Box 754; 936 Easton Road
Warrington, PA 18976

Contact: Elizabeth C. Vibber, MS
215/343-2727



The Financial Business Model as a Key Element of a Financial Business Plan

Business plans are usually thought of as tools that businesses use when they are starting up or seeking financing, but they are also wonderful tools for nonprofits to use at any time. Running a not-for-profit organization is very similar to running a business. To be 'successful' (read as 'sustainable'), one needs to understand the key elements of the organization.

Impact Investing for Revenue

A business plan is essentially a combination of a marketing plan, a strategic plan, an operational and management plan, and a financial plan. These elements come together to create a cohesive strategy for the organization to follow. A business plan can assist an organization in maximizing its mission through the achievement of its identified goals and objectives in all areas.

When organizations have a clear picture of the programs and activities that provide the most revenue, they are able to make future investments into the expansion of these programs and activities. This is what is known as "impact investing for revenue." This information becomes critical when making decisions as part of the strategic plan, part of the programming plan and even part of the marketing plan.

For organizations where time and resources are limited, taking the time to understand and articulate the organization in financial terms can have a huge influence. This is done within the financial plan.

Developing a Financial Plan for Your Organization

A financial plan is a written document that includes current information about the organization's revenue, expenses, and its assets. It also sets financial goals to be accomplished, as well as defines the timeframe for these goals to be accomplished.

Begin with the End in Mind

When using a financial business model, the organization must understand the expected results that the model will be used to support. The organization should clearly identify the purpose of the financial business model.

The focus of the financial plan should be to identify financial goals the organization is looking to achieve in the future. The most important financial goal should be listed first. Goals should be specific and measurable. They should also occur within a specific time period. An example of a measurable, specific

and timely goal would be: *to increase membership revenue by 7% over a 12 month period beginning January 2013*. For a goal to be measurable, the organization's current position must be known, and the results must be tracked and calculated. Once identified, goals are supported by actions.

Action items are very specific tasks that once they occur, assist in the achievement of the goal. Using the same goal as an example, action items might be to launch a membership drive, to offer incentives to current members for signing up new members or to do a marketing campaign highlighting the benefits of membership.

Identifying, altering and tracking financial data can be overwhelming for many organizations. The more diverse an organization's revenue profile, the more complicated this data can become. To assist in the management of financial data, a ***Financial Business Model*** can be developed.

For the purposes of this white paper, we will focus the Financial Business Model. To illustrate how a financial model can be developed and utilized by an organization, we will look at the experience of The Mennonite Heritage Center, which developed a financial business model specifically to focus on program revenues.

Case Study

The Mennonite Heritage Center (MHC) is a museum and historic library dedicated to preserving and sharing the stories of Mennonite faith and life in eastern Pennsylvania. The Center accomplishes much of their mission through events, programs and workshops. As part of their strategic plan, the board of MHC identified 'Financial Sustainability' as its number one goal. To accomplish this goal, MHC sought to further develop educational and traditional arts programs with appropriate classes which generate income, increase membership and encourage outside participation. The Center has been working to grow the traditional arts programs to build attendance and participation at the MHC. Attendance at the MHC for exhibits has been static, and staff was interested in hands on programming as a means of attracting wider community participation. The MHC had one or two workshops annually since the early 2000s and has since grown to currently around 20 per year. The workshops have attracted new participants, some of whom have joined the organization as members and even become contributors. The MHC had not previously done a financial analysis of the programming but based workshop fees on what they thought the market would bear. Workshop instructors are paid what is believed to be a fair honorarium for their work.

To accomplish this goal, and to create a case study/best practices paper to benefit the field of folk and traditional arts as a whole, MHC secured a Consultancy and Professional Development contract from the American Folklore Society. The contract was based on a proposal solicited from The Catalyst Center for

Nonprofit Management. The Catalyst Center is a management and consulting firm which specializes in working with not-for-profit organizations to identify key issues and provide solutions to address these issues.

The first step in the process was to meet with the Executive Director of MHC and to review MHC's strategic plan. As the number one goal of MHC's strategic plan, financial sustainability of the organization was where the Catalyst Center focused its efforts.

The Catalyst Center is affiliated with Bee, Bergvall & Co. an accounting and business advisory firm with a niche nonprofit practice. Based upon the identified scope of work for the project, the two consultants selected for their project are also certified public accountants with more than ten years' experience working with not-for-profit organizations, including arts, culture and membership organizations.

The Catalyst Center determined that a Financial Business Model, with a specific focus on program income, would provide MHC with a flexible tool that they could use to make decisions to improve the overall financial sustainability of the organization

A **Financial Business Model** is a guide for understanding, managing and tracking the sustainability of an organization, and it can contain a number of elements. The model created for MHC was designed to outline a financial framework of MHC to address the expansion of MHC's educational and traditional arts program.

The Programming Model includes the following elements:

- Revenue funding stream analysis
- Projections for programming
- Projection worksheets for the current year and the impact of future programming for three future years

The model itself is an Excel spreadsheet that allows for the input of historical financial data as well as for the input of projected programming data. All of this information is based upon MHC's financial data. (Note: definitions of financial terms are included to assist in the understanding of the model.). The model has a number of spreadsheet tabs, each one providing a different piece of financial information.

Process

Prior to the application for funding from the American Folklore Society, MHC met with the Catalyst Center to discuss their goal of increasing financial sustainability. Upon identifying the expectations for the project, and comparing these expectations to the grant guidelines, a proposal defining the scope of work for a financial business model was developed and presented to MHC. The proposal was then incorporated into the grant application and funding secured.

The creation of the financial business model was accomplished through a series of steps.

First, consultants from the Catalyst Center reviewed materials from MHC which included marketing materials, the strategic plan, a current QuickBooks file, the past two years of financial statements and audit reports.

After reviewing these materials, two meetings between consultants from the Catalyst Center and members of MHC's Finance and Sustainability committee were scheduled. During these meetings, the operation of MHC was discussed and its revenues and expenses reviewed. Ideas for sustainability were discussed and a focus was determined.

Once a financial model was developed, it was presented to the Finance and Sustainability Committee for review and refinement.

Training for the executive director and other key staff of the Mennonite Heritage Center on the future use of the model was addressed at this time.

Elements of the Financial Business Model

Revenue Funding Stream Analysis Basic tab

Revenue is the payment for service, donations from individuals, grants from foundations and corporations, as well as income from fundraising activities and investments.

The Revenue Funding Stream Analysis is a spreadsheet that includes the organization's past years' revenue, the current year's revenue as well as projections for the next three years by revenue stream. Also included on this spreadsheet is the calculation of "percentage of each revenue streams as part of total revenue." This is useful information as it allows the organization to identify how the effects of changes in one revenue stream can impact the total revenue for the entire organization. Monitoring of these changes over time can indicate that a trend is developing. An example of a trend would be if fundraising activities are increasing or decreasing over a period of time. Specifically, if over the course of two or three years, there is a steady increase in revenue from fundraising activities would indicate a *positive trend* in these activities. By the same token, if each year the revenue decreases for an event, it is a downward trend. Knowledge of trends gives the board important information when making planning decisions. An action item in the financial plan of an organization facing downward trends in fundraising activities may be to consider hiring a development or events person to focus on these activities.

Revenue Funding Stream Analysis Linked tab

This tab is similar to the basic tab except projected program revenues (described in detail below) are linked to the Projection worksheets. With this feature one can see the impact of a percentage increase in program fees on the total revenue. Assume for example, the organization knows that it will be losing grant income in the next year. The organization can “experiment” with increasing fees or attendees in their programs to see how the increase will affect the anticipated loss in grant revenue. An action item in the business plan of an organization facing decreased grant funding might be to increase the cost of a program.

Projection worksheets

Projections are forecasts of future revenues and expenses. Historical Data is the actual facts and figures from past years. This information is specific to the organization.

This section of the model actually contains several spreadsheets:

--*Programming Actual 2012*-which lists all of the programs of MHC as well as the revenue they generated for the year 2012 from both members and non-members for their attendance at Center programs;

--*Programming Actual 2013*-which is being updated in the current year as programs occur in 2013 and is also the revenue generated from both members and non-members attending MHC programs. Since each of MHC's programs are listed, the organization can see how each program compares to the other programs. By understanding which programs have higher attendance or which programs are more profitable, MHC can decide to eliminate programs, increase advertising of certain programs, or offer additional sessions of more profitable programs.

Programming Actual 2014, 2015, and 2016- this is a template which allows for direct input of the actual program information as they occur. Again, it allows the organization to evaluate the individual performance of each class.

Programming Projections 2013, 2014, 2015 and 2016- these worksheets allow MHC to create “what if scenarios”. The model allows for inputs to increase the program fee by a dollar amount or a fixed percentage. In addition it allows the organization to see the effects of attendance increases up to the classes' maximum capacity.

Summary 2012, 2013, 2014, 2015- These worksheets summarize in total the actual revenue and expenses compared to the projected revenue and expense. This data allows the MHC to see at a glance the overall effect of an increase in fee or attendance compared to the historical data.

These spreadsheets are the heart of the financial model. The reason is that they allow MHC to not only identify trends in programming and membership; they also allow them to ‘test’ different scenarios. For

example, if MHC decided to increase the membership fee each year by 3% they could use the model to easily calculate the amount of revenue this would generate. By the same token, if the organization also decided to increase the benefit of being a member by also increasing the non-member cost to attend a program, the spreadsheet would calculate this increase in revenue for each year.

Returning to the concept of 'impact investing', MHC will use the financial model to identify where investing additional resources will have the most impact for them. This could be in growing programming, re-casting their membership structure or looking closely at their fee structure. Once identified, these decisions will be developed into action items for the financial plan.

Based on past experience developing financial models for other organizations, the Catalyst Center foresees MHC maintaining the model and utilizing on a regular basis when making programming decisions, assessing the viability of new revenue sources, and later to evaluate the impact of those programming decisions.

Conclusion

A financial model is an invaluable tool as part of a financial business plan. Its use is critical in determining whether to create and launch a new program, expand or eliminate current programs and to create a diverse funding base for the organization that will support its future sustainability. Financial business models are custom-developed and take into consideration the unique characteristics of the organization's mission, its strengths and its weaknesses. Development and use of such a model as part of a larger financial business plan requires the dedication and commitment of the board, the executive director and the key staff of the organization. The success of the model is directly related to its use, understanding and implementation.

Contact

Kathleen Karatas, CPA
Elizabeth Vibber, MS
Catalyst Center for Nonprofit Management/
Bee, Bergvall & Co.
PO Box 754
Warrington, PA 18976
215-343-2727



215-343-2727

kkaratas@bbco-cpa.com

www.catalystnonprofit.com

Heritage Mennonite Center
Funding Stream Analysis Model

Heritage Mennonite Center Funding Stream Analysis

G/L #	Account Name	2012	%'ge	2013	%'ge	2014	%'ge	2015	%'ge	2016	%'ge
41000+	Donations	\$ -									
42100	Apple Butter	-									
42000	Other Fundraising	-									
43000	Grants	-									
46000	Membership Fees	-									
47000	Museum Store	-									
	Program Income	-				-		-		-	
		\$ -		-		\$ -		\$ -		\$ -	

Purpose of Funding Stream Analysis

To determine the effect of increases and/or decreases in programming revenues on other revenue streams based on Projection Worksheets

Benefit of Funding Stream Analysis

This worksheet will allow the Center to manage income streams and budget income stream mixes based on the number of members attending specific classes.

This worksheet is linked to the Projection worksheets so you can see if you increase the participants or fees how it will affect your revenue streams

By manipulating the Program Income you can see how income changes will affect the sustainability of the organization and fulfill its mission.

Instructions

- 1 Use historical data if available or estimated budgeted data
- 2 Enter amounts for income for Rows 5 through 10.
- 3 The Program income is linked to projection worksheets
- 4 Note that Rows 11-15 can be hidden.



215-343-2727 kkaratas@bbco-cpa.com
www.catalystnonprofit.com

Heritage Mennonite Center

Projection Worksheet
Projection 2012

\$ change \$ -
OR
 % change 0%
 Member fee \$ -
 Non member fee

Programs

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
------	------	------	------	------	------	------

	Total	Program	Program	Program	Program	Program	Program
Program Fee							
Member		-	-	-	-	-	-
Non Member	-	-	-	-	-	-	-
Number of Members							
Number of Non Members							
MAXIMUM CAPACITY							
Revenue from Members		-	-	-	-	-	-
Revenue from Nonmembers		-	-	-	-	-	-
Total Revenue		-	-	-	-	-	-
Expenses							
Instructors							
Total Direct Expenses		-	-	-	-	-	-
Income after Direct Expenses		-	-	-	-	-	-
Sponsorships							
Indirect Expenses							
Salaries	%ge						
Excutive Director	0%	-	-	-	-	-	-
Asst. Director	0%	-	-	-	-	-	-
Salary	0%	-	-	-	-	-	-
Salary	0%	-	-	-	-	-	-
Printing							
Mailing							
Publicity							
Total Indirect Expenses							
NET INCOME (LOSS)	\$ -						

Purpose of Projection Worksheet

- To calculate the effect of a dollar increase OR percentage increase in member and non member fees
- To calculate the effect of attendees up to maximum capacity

Benefits of Worksheet

- To determine income effect on program based on a dollar fee change or percentage fee change to a class

Instructions

- Input Fee per Member per class in Row 7
- Input Fee Per NonMember Per class in Row 8
- Input number of Members attending class
- Input Number of Nonmembers attending each class
- Input Instructor Fee per class
- To add new classes insert at lines Column X
- Enter a \$ change to class fee in cell D4
- Enter a %ge change to class fee in cell D6

9. Note you should only input either a \$ amount or % 'ge amount
CAUTION!!!

If you input more than the maximum number of members per class you will receive a "CAPACITY" warning. Please re input members up to capacity



Heritage Mennonite Center
 Summary
 2012

	<u>Actual Totals</u>	<u>Projection Totals</u>	<u>%' ge</u>
Program Fee			
Number of Members	-		
Number of Non Members			
Revenue from Members			
Revenue from Nonmbers			
Total Revenue			
Expenses			
Instructors			
Total Direct Expenses			
Income after Direct Expenses			
Sponsorships			
Indirect Expenses			
Salaries			
Excutive Director			
Asst. Director			
Printing			
Mailing			
Publicity			
Total Indirect Expenses			
NET INCOME			

