Surviving and Thriving in Tough Times: A Framework for Nonprofits Facing Economic Stress

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Contents

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Introduction: Crisis Meets Opportunity

In a time of economic turmoil, the nonprofit sector is poised to welcome any good news. Signs of a recovery qualify under that heading, but sighs of relief may be premature. Consumer spending and corporate contributions are well below pre-recession levels, with no quick reprieve in sight. Foundation giving has entered a three-year trough that follows the stock market plunge of 2008, and nonprofits have only begun to feel the fallout. A significant number will face existential challenges in the coming year.

With that grim introduction, we nonetheless suggest that this is a time of extraordinary opportunity in the sector. Current circumstances will force changes that can bring long-term benefits to nonprofits, their funders, and the public they serve. Nonprofit leaders should focus on seizing this moment to adopt reforms that can position their organizations for long-term sustainability and growth. Organizations that do so will survive this recession, and others to come, and will have a greater impact than ever before.

Many nonprofits are or should be considering financial restructuring options in response to ongoing funding challenges. However, no common approach to this task has been established. Further, in a sector long dominated by intuitive decision-making, data-driven tools for financial decisions are scarce.

We present a framework for nonprofits to analyze their organizations' financial underpinnings and identify practical options for financial restructuring. Distilled from a broader methodology for business model assessment, this process can help leaders leverage readily available data to inform critical decisions—and thereby respond to financial challenges with the benefit of a deeper understanding of the alternatives available to them.

There are five steps in this framework. We detail them in sequence, starting with dissection of the mechanics of an organization's financing.

1. Describe the Funding Model

An organization's funding model is the formula and underlying logic through which it generates revenue to cover its costs of doing business.

The business sector has a number of well-defined and familiar funding models, for example the subscription model (magazines, web-based software services), the customer loyalty model (airlines with frequent-traveler programs), the low-cost provider model (discount stores), and the network effects model (cell phones, and online services such as Twitter). Though elements of each of these examples are found in the nonprofit sector, nonprofit funding models are typically more complex because while most businesses sell directly to their customers based on a clear value proposition of goods or services for money, most nonprofits are funded at least in part by third-party payers. These payers, which may be government agencies, philanthropic donors, or members, have an interest in seeing that services are available to others, and sometimes to a community as a whole. This triangular relationship speaks to the theoretical grounds for having a nonprofit sector: the market alone does not meet all needs.

Third-party payers may have any of a variety of motivations, and nonprofits have been creative in finding ways to channel their funding into programs and operations. Foster, Kim, and Christiansen defined ten types of funding models found in large nonprofits, focusing on the value proposition made to funders.[1] Most nonprofits, however, do not have a "pure" funding model, but rather a hybrid mixture of different types of revenue, often coming from people or institutions with differing motivations for being involved.

In addition to third-party payers, other funding model components common to nonprofits include:

- A sliding scale fee structure, based on ability to pay;
- A combination of fee-for-service and contributed revenue;
- Membership dues;
- Endowment funding; and
- Unrelated business income.

When nonprofits charge clients for services, the prices are typically subsidized to some extent. Understanding these subsidies is also an important part of describing the organization's funding model.

Some of the key questions to consider in articulating the funding model include: What are the organization's funding sources? How do they fit together to fund operating and capital costs? What motivates different funders to engage with the organization? What is the logic that holds the different elements together as a whole? Where are the weak links?

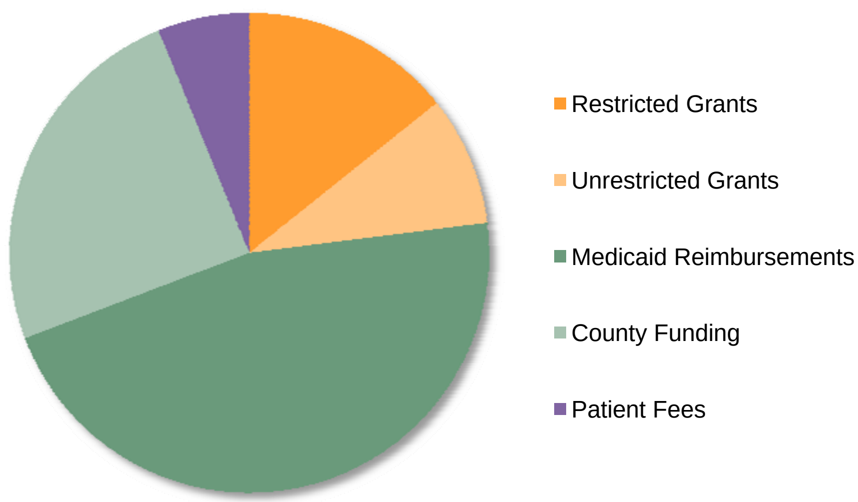
To illustrate this process, we apply it to Midtown Health Services (MHS), a composite based on nonprofits we've worked with. MHS is a community health center serving low-income residents of an urban area. It operates a range of health programs, and has an annual budget of $3.1 million.

The organization derives 77% of its revenue from fees for services, and 23% from contributions. Fees for services consist primarily of government funds—60% of the total is received from the State in the form of Medicaid reimbursements, and 32% is a lump sum from the County for free care to uninsured residents. Medicaid is an entitlement health insurance program for qualifying low-income patients, while the County's payment is a contract, with a maximum amount negotiated annually, and then drawn down over the course of the year. The remainder (8%) is from patient charges, calculated on a sliding scale based on income.

Of the 23% of revenue derived from contributions, 62% consists of various restricted grants for special programs. The remaining 38% is from general fund raising, including an annual appeal and several events throughout the year. The pie chart, Figure 1, summarizes these sources.

Medicaid has been the most reliable of MHS's funding sources, and has grown by an average of 6% per year over the past five years, as demand for services has gone up. As an entitlement program, this source has eligibility criteria and no specific funding cap. County funding has fluctuated with the County's budget, increasing by as much as 12% in 2007, but decreasing in difficult times; 2009 funding was 9% lower than it had been a year earlier. County funding has been influenced by political support in the community, and one official in particular has been an especially strong supporter. While general fund raising has remained consistent over time, reflecting steady, if modest, support from the community's middle class residents and several local businesses, restricted program grants have wavered. MHS's foundation grants, primarily for preventive health and outreach programs not covered by government funds, have dropped by 26% over the past four years as funder priorities have changed and, more recently, funder endowments fell. MHS's board has, up to now, decided to maintain these programs despite this trend.

Figure 1
Revenue Sources for Midtown Health Services Case Study



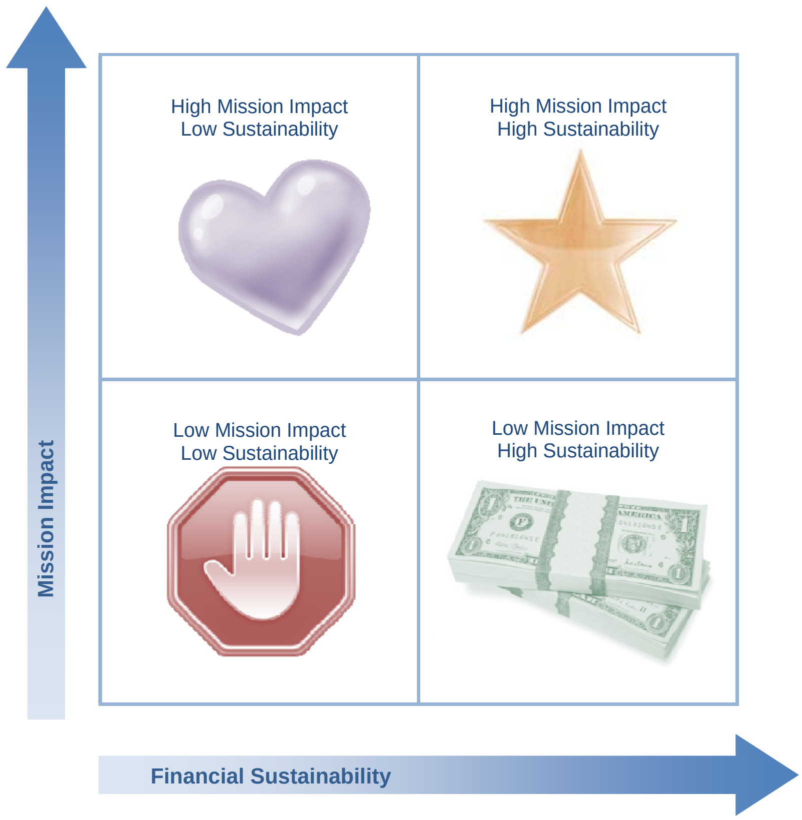
The net result of this funding model is that MHS met its goals when the economy has been strong, but operated at a loss when it has not. The current recession has been particularly hard on the organization. After a 2008 operating deficit of $76,000, the organization projects a 2009 deficit of $92,000. This will deplete reserves to just three weeks' operating cash. Worse yet, MHS's bank collapsed last year, and the organization lost its line of credit. MHS subsequently laid off 5% of its staff, and projects a small loss in 2010. A group of board members has offered to put up a portion of the previous line of credit, but only through mid-2010. The executive director has been tasked with exploring solutions and reporting back to the board with options.

2. Analyze the Service Mix

Analysis of an organization's service mix—the combination of programs and services it provides—lays important groundwork for defining financial restructuring options.[2]

A useful process for doing this analysis is to plot each program along a two-axis grid combining financial sustainability and mission impact. Known as the "Dual Bottom-line Matrix," this method clarifies cross-subsidies taking place between different programs—that is, the degree to which some programs may generate surpluses that intentionally *or unintentionally* help to underwrite other programs.[3] Figure 2 is a conceptual image of the Matrix.

Figure 2
Dual Bottom-Line Matrix



Calculating the total cost of each program is a critical first step in filling out the grid. This involves accurately assigning all *direct* operating costs to each program, and allocating all of the organization's *indirect* operating costs proportionally among the programs.[4] To protect against anomalies that may occur in a single budget year, for example due to a large one-time expense, program cost data should be averaged over three years. The results of this analysis can be surprising; many nonprofits routinely underestimate the true costs of some programs, and consequently “undercharge” funders or consumers of services.

The second step is allocating revenues, which are of two types, program-specific and general. Program-specific revenues include:

- Income generated from fees for services provided through a program;
- Grants and contributions restricted for a particular program, as defined by accounting standards; and
- Funds raised from appeals and events, when the stated purpose is to support a particular program.

Program-specific revenues are assigned to the corresponding program. (General revenues are addressed separately, below.) The combination of these two steps yields a net surplus or deficit figure for each program, which tells us where to place that program on the X-axis (Financial Sustainability) of the matrix.

After allocating all costs and program-specific revenues and determining each program’s net surplus or deficit, management staff can reach consensus on where to place each program on the Y-axis (Mission Impact) of the Matrix.

Programs that fall in the upper right quadrant produce high mission impact and a financial surplus, no controversy here. These are often an organization’s core programs. Programs in the lower left quadrant—low mission impact and losing money—may also be noncontroversial; if they cannot be moved into another quadrant in the near-term, they are ripe for elimination. Programs that fall in the upper left quadrant have high mission impact, but lose money. In an organization facing financial stress these services may be subject to scrutiny; options may include implementing a new marketing strategy aimed at making the program “profitable,” reducing the scope of the program, developing a partnership to provide the service through another organization, or eliminating it altogether. Programs in the lower right quadrant help to subsidize core mission services, but may be subject to scrutiny if they distract the organization from its core mission.

The same grid can be used to assess new or alternate services an organization may be considering and compare them with existing programs. Rigorous and realistic assessment of the likely costs and revenues is essential to such a process.

Finally, we return to general revenues, referenced above. These funds come from sources such as memberships, general operating support grants, and contributions made to the organization as a whole. Although general revenues are not associated with any particular program, it is important to understand how they contribute to the organization’s overall bottom line. Thus, they are examined in summary form here along with the combined program surplus or deficit.

In conducting this analysis, MHS made some surprising discoveries. Summarized in Figure 3, management staff calculated the full cost of each of its program activities and allocated program-specific revenues.

Figure 3
Allocation of Costs and Revenues for Midtown Health Services Case Study
($ thousands)

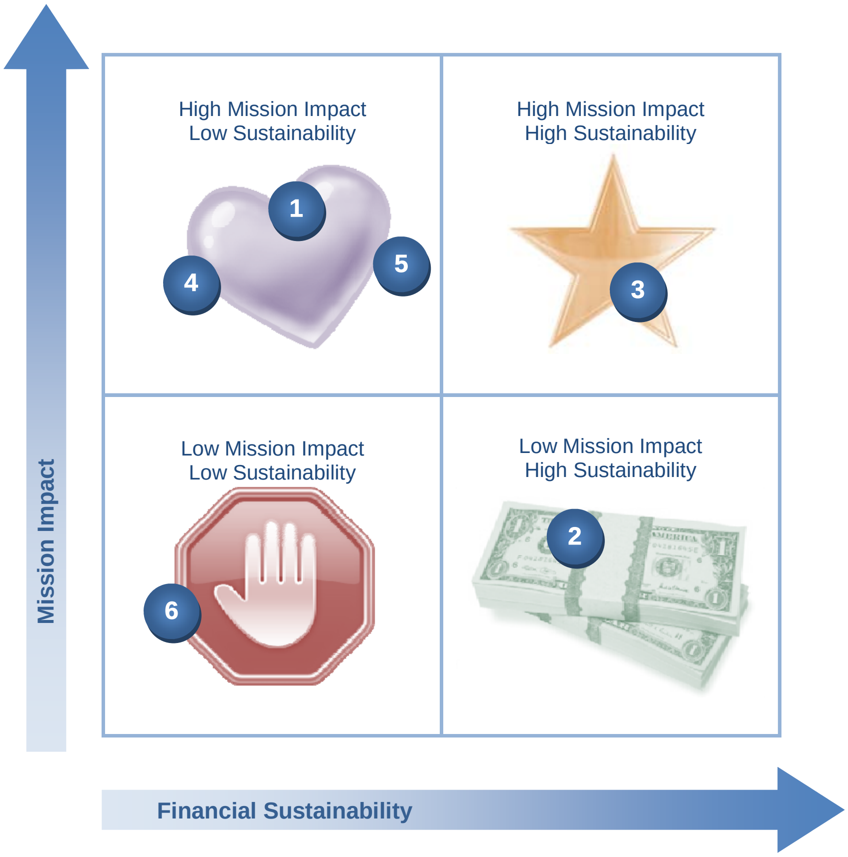
Program	Direct Cost	Indirect Cost	Total Cost	Revenue	Surplus (Deficit)
Family Health Clinic	1,734	281	2,015	1,803	(212)
Dental Program	347	56	403	424	21
Outpatient Clinic	240	39	279	332	53
Mobile Health Screening	160	26	186	62	(124)
Preventive Health Ed	133	21	155	116	(39)
Careers in Health	54	9	62	8	(54)
Subtotal All Programs				2,745	(355)
General Revenue				263	263
Total	2,668	432	3,100	3,008	(92)

Using surplus (or deficit) figures in the far right column of Figure 3, management then plotted each program on the Dual Bottom-line Matrix, summarized in Figure 4.

MHS's major program, the Family Health Clinic, is in the upper left quadrant. It is mission centered, but turned a deficit. Three other programs were losing money as well—Mobile Health Screening, Preventive Health Education, and Careers in Health, a teen job-awareness program that was started with a one-time grant in 2006 and continued afterward with limited corporate support. Of the three, the biggest losses accrued to Mobile Health Screening, which received restricted grants totaling just 33% of full costs. As they are in close alignment with the mission, Mobile Health Screening and Preventive Health Education share the upper left quadrant with the Family Health Clinic. Careers in Health, deemed by staff to be a relatively weak fit with the mission, appears in the lower left quadrant.

The Dental program produced a surplus, but appears in the bottom right quadrant because it was not a precise fit with the organization's mission. The pleasant surprise was the newly piloted Outpatient Clinic, operating in makeshift space with limited hours; it was a close mission fit and turned a significant surplus due to higher Medicaid reimbursement rates for services rendered there.

Figure 4
Dual Bottom-Line Matrix for Midtown Health Services Case Study



1. Family Health Clinic
2. Dental Program
3. Outpatient Clinic
4. Mobile Health Screening
5. Preventive Health Education
6. Careers in Health

A central observation in viewing this data is that the majority of MHS's activities lose money. This is not surprising for a nonprofit—if services were highly profitable, the business sector would likely fill the need—but serves to emphasize the point that general fund raising is essential to the organization's current funding model.

From this analysis, MHS's leaders concluded that the Dental program and the nascent Outpatient Clinic are partly subsidizing the organization's other programs. But the losses of the latter four are higher than MHS's general fund raising can support. In the current economic environment, the net result is a losing proposition.

3. Test the Funding Model and Generate Alternatives

The funding model is tested by analyzing multiple moving parts, typically including direct and indirect costs, contributed revenue, service mix, prices of services, levels of program activity, service capacity, and utilization.[5] Clarifying the relationships among these parts is the key to understanding why an organization may not be on a path to sustainability, as well as what changes may be necessary to get there.

The vehicle for testing the funding model is an interactive spreadsheet based on historical budget data, and tied to variables representing the "moving parts" listed in the preceding paragraph. Using data gleaned from analysis of historical patterns, including rates of growth and relationships between costs and revenues, we can project future expenses and revenues under different scenarios through a technique called sensitivity analysis. Here variables are altered one at a time to determine the predicted impact of each variable on the future bottom line.[6]

The result is a comparative picture of how various factors can be expected to impact long-term financial sustainability. The *baseline scenario* consists of projections based on the continuation of the status quo or the most likely extension of current conditions without financial restructuring. By working through different scenarios based on variable changes—and contrasting all scenarios with the baseline projections—the organization can focus on several combinations that project improved financial performance in future years. These will be the alternatives considered for financial restructuring.

Sensitivity analysis can also incorporate metrics affecting an organization's particular financial outlook. Variations in assumed values for these metrics can be tested in different scenarios. For example:

- A model that combines fee-for-service and contributed revenues may include variables for: program subsidies (both from other services and from contributed revenue); the distribution and diversity of funders; and costs of generating different types of revenue.
- An organization that raises funds by acquiring and then retaining small donors may include metrics such as: new donor acquisition rates; donors' average length of stay with the organization; average revenue per donor over his or her life with the organization; and acquisition and cultivation costs for donors.
- An organization that sells tickets to exhibits or performances may include: break-even points at various levels of capacity and utilization; the relationship of sales and marketing expenditures to ticket sales; and the relationship between prices and the total cost of providing service per customer.
- A model that relies on (or aspires to) significant endowment support may include: levels of endowment principal; rates of return on investment; and costs of raising principal.

All models require a grasp of the fiscal impact of the organization's various activities at different levels of scale.

Testing of the funding model can be broken into four analyses, each of which can offer insight into critical factors for financial success as well as opportunities for financial restructuring:

1. **Funding sources.** Building on the description of the funding model described above, this analysis looks at the composition of and patterns in the organization's funding, as well as implications for sustainability.

2. **Service mix.** Building on the assessment of services and programs described above, this analysis projects the financial implications of specific programmatic choices.

3. **Pricing and cost structure.** Pricing of services—to both paying clients and third-party payers—is central to strategy formation in the business sector, but is often neglected by nonprofits. This analysis explores the impact of the organization's pricing and cost structure on the bottom line.

4. **Scale of operations.** This analysis can offer valuable insight into the financial implications of service levels under various growth (or contraction) scenarios, as well as the organization's cost-efficiency. These scenarios should take into account capacity constraints and necessary infrastructure investments to increase capacity.

As with all economic models, the scenarios generated through this process will only be as solid as the assumptions behind them. *The assumptions should therefore be clearly identified, conservative, carefully vetted, and based on at least three years of historical data*.[7] In cases where the future demand for an organization's services may be in question, a fifth area of analysis may be helpful in assessing the funding model:

5. **Market factors.** Analysis of market variables, including projected demand for services and the organization's costs and pricing relative to competitors, can shine light on key assumptions and strategy considerations.

Key questions to be explored in each of these areas are summarized in Figure 5.

A cross-section of executive, financial, and program staff can play valuable roles in assembling necessary financial information to undertake sensitivity analysis, vetting assumptions, and contributing to the overall understanding of market factors. This diversity can not only improve the quality of the scenarios, but can also help build consensus around financial restructuring options later in the process.

Sensitivity analysis is not a do-it-yourself process for all nonprofits. As an alternative, organizations can address several of the key questions posed here by developing three-year budget projections under several fixed scenarios, carefully vetting all assumptions behind each set of expense and revenue projections. This alternate method will not offer the full value of sensitivity analysis, but can provide meaningful insight on factors that may contribute to financial strength.

Figure 5
Funding Model Analysis Worksheet

	Assessment Questions by Complexity of Analysis*		
	Low	Moderate	High
Funding Sources	What is the current mix of funding sources by type (program fees/contracts/retail sales/fundraising/etc.) and percentages derived from each type?	How variable are past funding sources, and what can we project in the future? How diverse is the funding portfolio, and how stable are funding sources expected to be in future years?	How would changes to the funding mix affect the bottom line and sustainability?
Service Mix	What is the mix of services (programs)? Which services are core to the organization's mission?	What is the full cost of each program (direct and indirect)?	How would changes to the service mix affect the bottom line and sustainability?
Pricing and Cost Structure	What are program costs per unit of service?	How do the prices the organization charges its funders and/or paying clients compare to the actual cost of service?	How would changes to pricing and cost structure affect the bottom line and sustainability?
Scale of Operations	Is the organization operating at a scale that allows for significant mission impact? How much of the organization's current capacity is being utilized? What changes to scale of operations are planned on contemplated? How would changes to scale affect the organization's ability to meet its mission?	What investments would growth of capacity require? Does the current scale allow for cost-efficient provision of services?	How would changes to scale affect unit cost, the bottom line and sustainability?
Market Factors	Is demand likely to shrink, grow or remain even in the future?	What, if any, competitive threats may arise in the future? What is the organization's competitive advantage in the market?	How do the organization's pricing and cost structure compare to competitors? Does the demand for services meet or exceed the collective capacity of service providers in the market? How would varying market assumptions affect sustainability?

*Questions are separated by level of complexity of analysis to help identify which may be tackled by a nonprofit's staff and which may require additional analysis.

4. Evaluate and Compare Alternatives

The analysis described above allows an organization to narrow down strategic alternatives that can address underlying financial weaknesses moving forward. Examples include:

Adjustments to the service mix

An organization may eliminate programs that don't contribute to the mission, the bottom line, or both. An alternative to eliminating a program entirely may be transferring it to another nonprofit, where it may be a better business model fit. By itself, elimination or reduction of programs constitutes a form of downsizing. However, these changes may accompany an expansion strategy. For example, other programs may be expanded to reach more clients, a different service population, or a new geographic area. The result may be a new value proposition to constituents and stakeholders, as well as a net positive impact on the bottom line.

Changes in pricing

Prices charged to consumers and funders (by way of grant budgets and requests) may, in some cases, be recalibrated to better reflect the full costs of providing services.[8] An organization may adopt a new pricing strategy to build in desired subsidies and/or incentives to move paying clients or donors to higher margin services.

Shifts in the balance of funding sources

A new strategy may establish targets for a more diverse, or otherwise altered, mix of funding sources. Or it may seek to adjust the relative balance between fee-for-service and fund raising revenues. Alternately, a strategy may identify new sources of revenue.

Cost structure changes

An organization concluding that its future funding sources are unlikely to cover operating costs may choose to explore options for structural cost reduction, such as outsourcing administrative services, reducing overhead by consolidating facilities, or reorganizing the staff with a net reduction in positions—a traditional form of downsizing.

Targeted infrastructure investments

While spending less may be an obvious path to consider when facing financial pressure, spending *more* may be a worthwhile course for some nonprofits. After identifying courses of action likely to transform the organization's revenue generating capacity or scale of operations, an organization may decide to invest in building critical infrastructure, such as data systems, facilities, or management staffing.

Strategic restructuring

Many nonprofits operate on a relatively small scale. This means that fixed costs are often high relative to total costs, which can result in high unit costs of providing service. If an organization concludes that it needs to operate on a larger scale or build capacity to be financially sustainable, it may consider a range of strategic restructuring options such as merger, joint programming, or shared administrative services. These measures may produce economies of scale and the potential for greater mission impact, as well as a higher likelihood of long-term financial sustainability. Note that when merger or other strategic restructuring options are under consideration, the methodology used here can also be applied to a proposed consolidation to model financial impact and clarify the potential benefits.

To systematically compare financial restructuring alternatives, we use a strategy rating chart, a format for applying a common set of decision-making criteria to potential strategies.[9]

Figure 6
Strategy Rating Chart for Midtown Health Services Case Study

		Financial Restructuring Strategies			
Weight	**Criteria**	**Baseline**	**Eliminate or spin off the Mobile Health Screening program**	**Expand the building and grow the Outpatient Clinic**	**Merge with Benton Park Community Health**
1	Mission Alignment	3	2	3	3
2	Consistency with our core strengths	2	3	3	3
1	Will show a surplus within one year	1	2	1	1
1	Minimal impact on reserves and debt load	3	3	1	2
3	Will contribute to ongoing surpluses after three years	1	1	3	3
1	Will help MHS compete for foundation funding	1	1	2	3
Total Score		15	17	22	24

Figure 6 illustrates how this chart is used to compare financial restructuring alternatives for Midtown Health Services. Note that the baseline scenario is part of the rating chart, as a common point of comparison.

In rating each criterion, we first determine a relative weight for that factor. In this example, we deem "will contribute to ongoing surpluses after three years" to be the most important decision-making criterion. It reflects the urgency of solving chronic financial problems and improving the organization's long-term financial health, and therefore receives a relative weight of three. A second priority is "consistency with core strengths," and this criterion receives a relative weight of two. Next, we apply a nominal value in each cell, based on a 1-3 scale, with three indicating "strong," 2 being "moderate," and one being "weak." These ratings are not intended to be absolute, but rather are nominal values used to help narrow down alternatives to the most viable strategies—in other words, we will be looking at large differences in total ratings, not small differences, which will fall well within the statistical margin of error for this method of rough estimation. Cell values are multiplied by relative weights, and then totaled by column.

In our example, MHS conducted a thorough sensitivity analysis and market assessment. In generating various scenarios, management staff narrowed down financial restructuring alternatives to three, and presented them to the Board.

The first of these alternatives was to eliminate or spin off the Mobile Health Screening program. This activity was not self-supporting in its then-current form, and while it was mission centered, its negative impact on the bottom line was significant.

The second alternative was to grow the successful Outpatient Clinic, which would require expanding the facility. Sensitivity analysis showed that while this program had been successful, it must operate at a much larger scale to optimize its financial success. Further, a large demand existed in the community for this service.

The third alternative was to pursue a merger with Benton Park Community Health, MHS's major competitor. Benton Park already had a full-scale outpatient clinic, and analysis showed that MHS's relatively high fixed costs may be alleviated by the economies of scale offered by a merger.

All alternatives included elimination of the Careers in Health program at the end of the current year, a decision made by management after reviewing the data.

In generating these alternatives, leadership reaffirmed its commitment to MHS's core program, the Family Health Clinic. All possibilities were on the table for discussion, except reducing or eliminating this service. The analysis showed that even though this program was operating at a loss, it nonetheless, played a key role in the funding model by covering an important share of the administration and overhead necessary for all programs to operate.

Comparing the alternative strategies, the second (grow the Outpatient Clinic) and third (pursue merger) alternatives rated clearly superior to both the baseline scenario and elimination of the Mobile Screening program. Financial analysis showed that while the latter alternative would likely help the bottom line in the short-term, it could not in itself solve the organization's structural financial problems. A decision on Mobile Screening would therefore be postponed until the structural problems were addressed.

5. Make Decisions

Having generated, analyzed, and compared alternative financial restructuring strategies, we're now a step closer to making decisions. Before the organization can do this, however, management must flesh out the promising alternatives.

MHS did this by gathering more data on needed investments for expansion of the facility, and by conducting a merger assessment process for the potential union with its rival, including analysis of the financial impact of merger. After digesting this information, MHS's leadership revisited the strategy rating chart and moved toward a final decision on a course of action.

Note that the two promising strategy alternatives in this example—expansion and merger—are not necessarily mutually exclusive at this stage. In the event of a merger, the combined organization would need to analyze the impact of expansion in the new context before determining the viability of that strategy. This illustrates one of our fundamental points: the analytic process is ongoing, and should be built into the fabric of the organization's decision-making culture.

MHS's leadership decided to move forward with a merger, and the new consolidated organization ultimately decided to expand outpatient facilities and services.

Conclusion: Building Sustainable Nonprofits

Nonprofits have faced funding challenges for decades, and many have become masters at thriving with limited resources. The current economic crisis is the most severe of the past seventy years, and past solutions may not work for organizations facing unprecedented financial challenges. A systematic approach to financial restructuring has the promise of helping leaders identify solutions that may not have been intuitively obvious. Further, in adopting a decision-making process based firmly on available data, nonprofit leaders can be more confident that chosen strategies will succeed.

This approach to financial restructuring is a methodology that can be employed not just in times of economic stress, but on an ongoing basis as challenges and opportunities arise. One hidden benefit of current events is that they are forcing nonprofits to think differently. Structural changes that emerge from this thinking will help build a stronger sector.

[1] William Landes Foster, Peter Kim, and Barbara Christiansen, "Ten Nonprofit Funding Models," *Stanford Social Innovation Review*, Spring 2009.

[2] A nonprofit's work can be divided into distinct sets of activities; we define these activities (excluding administration and fund raising) as programs.

[3] From Jeanne Bell Peters and Elizabeth Schaffer, *Financial Leadership for Nonprofit Executives: Guiding Your Organization to Long-term Success,* Fieldstone Alliance, 2002. Adapted from Boston Consulting Group's Growth-Share Matrix.

[4] Various methods may be employed in allocating indirect costs; options include using a weighted average based on either relative direct costs of each program or number of staff FTE assigned to each program.

[5] Utilization is the portion of service or program capacity that is being used at a point in time. For example, a shelter with 100 beds that is operating at 80% utilization serves an average daily client population of 80.

[6] A typical time horizon for financial projections is five years, though it may be somewhat shorter or longer. The longer the horizon, the less precise the figures are, due to both the limits of predictive models based on past data and unpredictable future circumstances. This analysis is a tool for identifying trends and evaluating potential opportunities; it is not a tool for precisely projecting expenses and revenues.

[7] The importance of vetting assumptions merits emphasis; one or two overstated or unfounded assumptions can undermine the value of scenario calculations.

[8] We recognize, however, that many organizations are funded through government contracts, reimbursements, or similar modes in which pricing is not negotiable, at least in the short-term. Our example, Midtown Health Services, falls into this category. In these cases, price modification may not be an option.

[9] Adapted from David La Piana, *The Nonprofit Strategy Revolution,* Fieldstone Alliance, 2008.