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More than Money

Spring 2006

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F.S.M.*

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Build A Financial Success Model

Although most nonprofit leaders understand the idea of building a financial success model, too few create them for the organizations they care about. During my 13 years of consulting, I've helped leaders develop a multitude of models that work. Good news! You can too. Using a Q and A format, this article reviews the concept and suggests model building strategies.

Q: What is a financial success model (FSM)?

A: Your plan to explain how the revenue you receive for what you do equals and, in time exceed, the cost for doing it. FSM is your roadmap to survival and success.

Last month I received two calls from people with nonprofit organizations. One had invested \$300,000 in technology and was "certain it had value," but was unsure how to offer it. A second owned the patents for a number of impressive medical devices, the leadership had taken out personal loans to develop them, but they lacked a plan on how to bring them to market. Both organization desperately needed and were long overdue for a FSM.

Q: Isn't a FSM the same as sustainability?

A: Sustainability is part of it. Sustainability allows you to continue activities; financial

Your Ideal Financial Success Model

$$\begin{array}{r} \text{Revenues} \\ - \text{Cost of activity} \\ \hline \text{Excess} \end{array}$$

success provides continuation funds and resources for upgrades, inflation, natural events and other realities. So, financial success is more, with financial success you survive hard times and improve.

One organization provided scattered site housing for special needs adults. Although sustainable, the margin of expense to income was so narrow that a single late payment threw the organization into chaos. By helping them to increase their units and prefer those with greater proximity, I helped them create more income with the same staff at similar costs. Over time they thrived and met more of their mission goals.

Q: How does a FSM compare to outcomes?

A: Your financial success model is more critical. Even if you can guarantee outcomes, if you aren't around to offer them, how can they help? As, David Lawrence, CEO of Kaiser Permanente, the nations largest nonprofit healthcare organization states, "No

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Do you want to achieve more of your mission by discovering how to turn your promising ideas into funded ventures? This firm has helped hundreds of groups like yours do exactly that—and secure millions of dollars, improve services and build stronger organizations. Contact the *More than Money Consultant* for results with facilitation, strategic planning, grants and financial success models.

ked*
Karen Eber Davis Consulting

Grant-Link

Q: How does this tie into grants?

Consider using your grant revenue like venture capital for new ideas. Historically, grant funders provided grants with the idea that once services were proven, organizations would seek government funds to continue them. As government budgets in this area shrink, more organizations are continuing ventures with earned income. Whatever techniques you use, designing a strong model strengthens applications.

Also, consider using your grants to test your financial success techniques. Try a sliding scale fee. Or launch a new collaboration with the goal of improving both organizations. Some ideas will only arrive after the program is underway and you learn from experience. And, your new customers may bring you new ideas.

Finally, your financial success model helps you answer two grant questions. One deals with what will happen in the grant period (*If other funds are needed for this activity where will you get them?*) The second concerns the future (*How will you fund this activity after the grant?*) In the long run, discovering a model that lets you continue your hard-earned grant funded activities is more important than answers to specific grant questions.

Note: Your grant applications revenue's less your expenses should equal zero, not an excess. If you project excess revenue in your application you run the risk of the donor deducting that amount from your request.



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margin, no mission, no mission, no margin.” How can you help others if you don't have resources to care for yourself?

Q: Isn't a FSM just a fundraising plan?

A: A financial success model includes a fundraising plan, but it is much more. Fundraising is a powerful nonprofit tool that by itself it is inadequate. Developing your financial success model includes reviewing activities, cost savings, organization structure, income opportunities that include fundraising *and* creative ideas that take advantage of your unique position.

Q: What are some ideas to build financial success models?

A. Select a large number of ideas and test them. Keep and refine the best, discard the rest. Repeat as necessary.

Here are 12 areas to investigate:

- Can you expand activities that generated revenue in the past?
- How about ideas that save money? Girls, Inc. learned that they did not need to pay tax on their power bill: not only was the expense eliminated, they received a refund.
- Can you simplify activities? Does your intake really need six steps?
- How about unused assets? Do you have a vacant room, extra volunteers?
- Can you avoid waste?
- How about changes that don't require money, but positively impact your bottom line?
- Is there an idea you can adapt from another organizations, either nonprofit and for-profits?
- What happens if you change a relationship? I.e., can you refer customers on for services you cannot afford to offer?
- Re-examine your stewardship. Are some activities *too*

A vision without a plan is a hallucination- Anonymous

expensive when you calculate their true costs (i.e., multiple special events when you include staff hours)? Can you reduce five events to two?

- What if you delete an activity? While unattractive, it is an option. When you discuss it seriously people often generate new solutions.
- How about thinking different? For example, each spring, Girls Scouts sell cookies. Several years ago, the local chapter “thought different” and created a Cook-ie-Off. They invited local chefs to compete making desserts using the cookies. Besides raising funds, creating good publicity, inviting new relationships, the event added a different twist to an annual.
- Don't forget the classic FSM ways: increase revenues with grants, individual donations, program fees and earned income.

Q. What happens without a FSM?

A. Without a financial success model, new activities and even organizations come on line, have their moment of glory and fail.

An organization, let's call them Bounty House, offered pregnant woman housing. After receiving a donated house and retrofit funds, the organization used 100 percent of its rent and donations to run the program. They opened with the founder donating 24-hours supervision, plus her nursing skills, but faltered when she found it necessary to step back. Costs included upkeep, supplies and 24-hour supervision plus an executive. Revenues included rent, donations and a start-up grant. Had the

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organization developed a financial success model that included an analysis of similar services, they would have learned that Bounty House faced serious revenue challenges. With this knowledge they might have decided to 1) scrap the activity or 2) explore alternate strategies including identifying sites with 24-hours supervision or 3) merge with another group. Instead despite near fulltime fundraising efforts, Bounty House closed within 18 months.

Q: What if a FSM model doesn't exist?

A: Re-consider. Edison preformed 1,600 experiments to find a light bulb filament. You, like Edison, may need to experiment to create a model that works for you, but the possibilities are endless.

If you want to improve your financial success model or are struggling with it, I can help. Creative solutions are a specialty. For example, for one client, I created a list of 17 options as a starting point; only one was to increase individual fundraising. Thirteen were new. To date, I've helped many organizations, in a wide variety of niches, to create long-term viability. Using proven techniques, I can lead your group to build and strengthen your financial success model. Call or email me today to get started.

2006 Workshops and Opportunities

- April 28 **Teleconference**
*A Marriage of Convenience:
How to Link Your Grants &
Individual Fundraising Efforts*
- Sept. 15 **Teleconference**
*Proven Ideas & Results:
Innovative Grant Program Design*
- Nov. 30 **Nonprofit Clinic**
How To Build a Financial Success Model

For more information see: www.kedconsult.com

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- process *and* the technique.
- 7. Develop strategies to explore and then test your most promising ones. Invest in making your trial runs successful.

Building financial success models is skill-based. With practice you get better at it. As a nonprofit leader, you have many opportunities to create solutions. Getting skilled at generating financial success models serves your organization and future. Finding solutions lets you to do more of your mission, the reason you got involved in the first place.

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P. O. Box 15464
Sarasota, Florida 34277
941-924-4860 (phone)
941-924-6153 (fax)
karen@kedconsult.com

www.kedconsult.com

Strengthening organizations with planning, team-building and grants since 1994

Seven Steps to Build Your Financial Success Model

Financial success models involve investment, planning, thinking and action. Just as you invest in documenting your outcomes; invest in creating financial success. Here are seven steps:

1. Set a revenue goal. Crunch the numbers. Will your activities meet your needs?
2. If not, brainstorm and study ways to get there. Don't be satisfied until you have a working list of techniques that will take you months or even years to fully explore.
3. Move from conversations about solutions to a written options list
4. Collect ideas on a regular basis, i.e., assign a quarterly due date for ten new ones
5. Use five categories to organize your ideas: a) Increase revenue, b) Decrease costs, c) Think different, d) Small changes that matter and e) Wild ideas with potential
6. If you decide to copy another group's technique remember that the process they went through is a vast factor in its success. Even though you can "borrow" another group's idea and modify it; if you don't think through and grapple with the idea, you can't expect the same success. Adapt the

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Newsroom

Free Articles

These *new* Proven Result Articles join a collection of 25 free others at www.kedconsult.com

- Sample Grants Management Form
- Budget Categories, A List to Help With Grant Requests
- When to Begin Your Sustainability Plans

New CD

- Nonprofit Myths that Snag Even the Best Organizations

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The More than Money Consultant presents

A Marriage of Convenience

Linking Your Grants and Individual Fundraising Efforts

April 28, Teleconference, 12 noon est

Do you struggle to find ways to create grant requests to sustain you long-term vs. one-time winners? Would you like to know exactly what to write in a grant to end the separation between them and your other fundraising? This class will help you understand how to create effective and efficient applications that create new synergies and useful revenue for your organization.

Learn how to:

- Set in motion the links between grants and individual donations
- Position your organization as future oriented
- Include items in your requests you never considered
- Get additional mileage out of your grants

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