

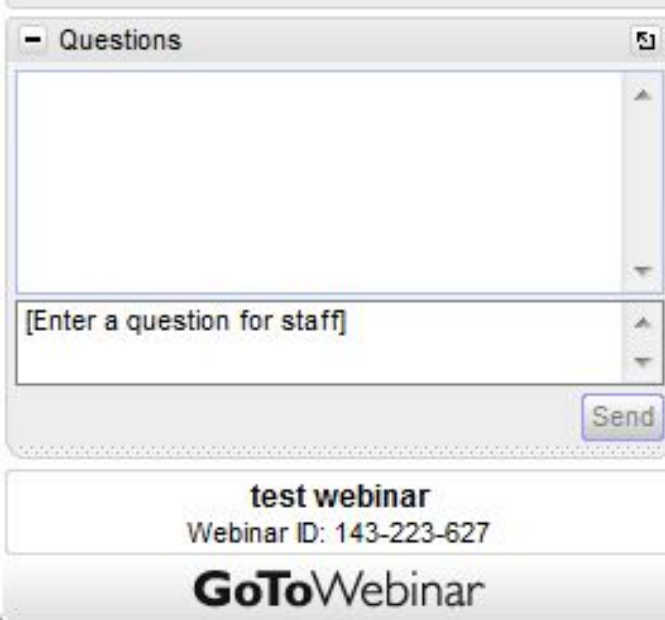
Welcome! Below are a few housekeeping items to review before we get started.

If you can't get the audio through your speakers or by VOIP, try dialing in using your phone.

We have a number of participants on the call, so your phones are muted to ensure the best audio quality for everyone.

To ask a question, you can type it into the questions box (pictured to the right) at any time. Questions will be addressed at designated intervals.

This webinar is being recorded.
The slides and full recording will be provided to attendees. An email will follow with further instructions.



The image shows a screenshot of a GoToWebinar interface. At the top, there is a window titled "Questions" with a close button. Below the title bar is a large, empty text input area. Underneath this area is a smaller text input field containing the placeholder text "[Enter a question for staff]". To the right of this field is a "Send" button. Below the input fields, there is a white box containing the text "test webinar" and "Webinar ID: 143-223-627". At the bottom of the interface is the "GoToWebinar" logo.

NFF Webinar Series

Part 3: Tools for Strategic Decision Making

Scenario Planning



Presented by:

Kate Crisalli

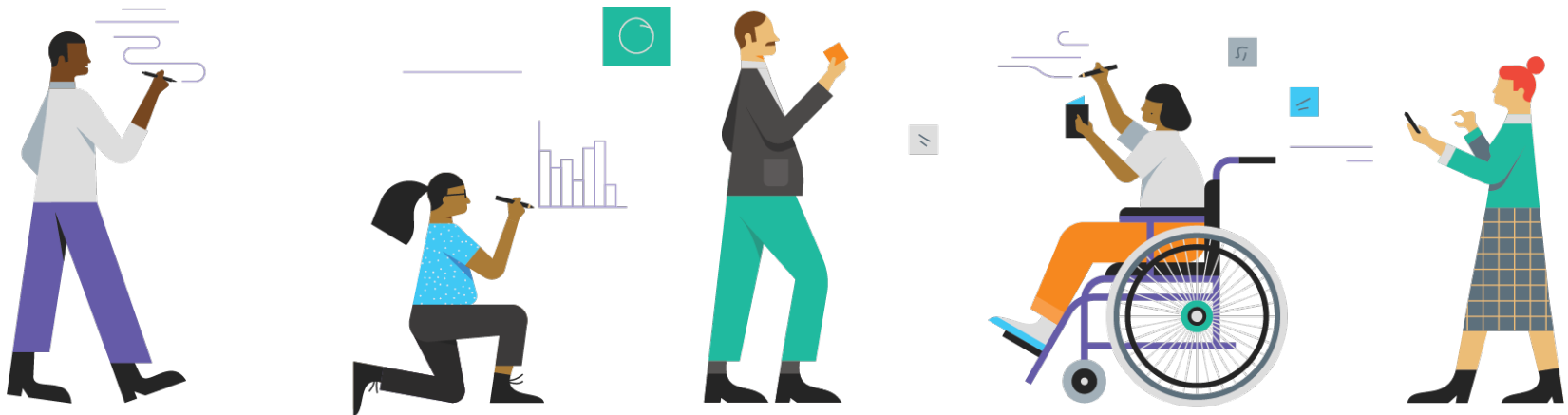
Associate Director, Advisory Services

June 5, 2018

Nonprofit Finance Fund Where Money Meets Mission

NFF envisions a world where capital and expertise come together to create a more just and vibrant society. We unlock the potential of mission-driven organizations through:

- **Tailored investments**
- **Strategic advice**
- **Accessible insights**



2018 National Webinar Series: Strategic Financial Management Tools



Financial Literacy

Part 1: Basics of Nonprofit Finance

Webinar 1: The Big Picture

Webinar 2: Reading Financial Statements

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Financial Communication

Part 2: Tools for Managing the Day-to-Day and Stakeholder Communication

Webinar 4: Budgeting Basics

Webinar 5: Strategic Budgeting

Webinar 6: Cash Flow Planning

Webinar 7: Dashboard Development

Webinar 8: Telling your Financial Story

Financial Planning & Reporting

Financial Management & Decision-Making

Part 3: Tools for Strategic Decision Making

Webinar 9: Program Economics

Webinar 10: Untangling Multiple Views of Cost

Webinar 11: Scenario Planning

Webinar 12: Planning for Growth

Webinar 13: Building Long-Term Financial Health to Manage Risk and Leverage Opportunities

Webinar 14: Partnerships and Collaborations



Understand the purpose of scenario planning and its utility in identifying strategic options and consequences



Learn how to develop a scenario plan and the key stakeholders to engage among staff, board, and others



Explore examples of scenario planning in practice and identify the strategic options each model informs



Take home scenario planning model

Scenario planning is the process of visualizing, analyzing and communicating:

- Future conditions or events;
- Their consequences or effects; and
- How to respond to them.



How do we mitigate

Risk



Source: <https://thornleyfallis.ca/wp-content/uploads/2013/10/risk.jpg>

What Risks or Opportunities Do You Face?

What triggers should prompt action, what will you do, and what will be the impact?



Decision Matrix

Prioritizing Risks and Opportunities



	CRITERIA				
RISKS/OPP	Time Horizon Affected	Financial Impact	Mission Impact	Degree of Control	Likely to Occur?
1.					
2.					
3.					
4.					

Sample Decision Matrix Prioritizing Risks and Opportunities



	CRITERIA				
RISKS/OPP	Time Horizon Affected	Financial Impact	Mission Impact	Degree of Control	Likelihood to Occur
Partner for advocacy					
Increased demand for existing services					
New program focused on immigrants					
Key gov't contract not renewed					

1. **Identify the team** to ensure diverse perspectives from all levels of your organization
2. **Define the scenarios** to articulate the risks, issues or opportunities in question
3. **Gather key financial data** on revenue, expenses, cash reserve, etc.
4. **Isolate the financial drivers** and levers that result in change
5. **Develop the base case and scenarios**
 - Articulate the assumptions you are making within each scenario
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6. **Create an actionable plan** with timeline, benchmarks, actions and clear objectives/priorities
7. **Revisit the scenarios and actionable plan as needed**

- **Best/Worst Case Budgets:** “What if’s” of one budget year
- **Go/No-Go Analysis:** Cost-benefit of a strategic decision
- **Detailed Multi-Year Scenario Plan:** Quantifies the effects of choices/events over time and reveals important inflection points, trends or financial drivers
- **Back of Envelope/High Level Analysis:** For low-stakes decisions or to gauge general financial impact; easier to do but may be inaccurate

Case Example: Best/Worst Case Budgets for Multiple Changes

Numbers in 000s	2015 Budget	Description	Best Case	Description	Worst Case
Unrestricted Revenue					
Contributed Revenue					
Corporate Giving	\$150		\$150		\$150
Foundations	\$75	\$25k grant from new funder	\$100		\$75
Department of Education	\$250		\$250	Funding Cut	\$150
Individual Contributions	\$15	25% increase in annual giving	\$20	30% decline in annual giving	\$10
Special Events	\$55	2 additional events	\$75		\$55
Subtotal	\$545		\$595		\$440
Earned Revenue					
Membership Dues	\$10		\$10	20% decline in membership	\$8
Parent Fees	\$15	40 extra children in afterschool	\$17		\$15
Facility Rental Income	\$30	20% increase in rental fees	\$36	reduction in rentals	\$25
Subtotal	\$55		\$63		\$48
Total Revenue	\$600		\$658		\$488
Change from Budget Revenue					
\$			\$58		-\$112
Expenses					
Personnel					
Executive Director	\$55		\$55		\$55
Youth Team Leaders	\$105	.5 extra youth leader	\$125		\$105
Early Childhood Providers	\$70		\$70	duce early childhood to 1 FTE	\$35
Tutors	\$60	50 extra hours of tutoring	\$65	cut tutoring hours	\$55
Site Supervisor	\$45		\$45		\$75
Subtotal	\$335		\$360		\$325
Program & Operations					
Insurance	\$75		\$75		\$75
Professional fees	\$50		\$50	cut book keeper hours	\$35
Supplies	\$80	extra supplies for afterschool	\$105		\$80
Building Maintenance	\$15		\$15	cut landscaping	\$10
Interest	\$18		\$18		\$18
Misc	\$15		\$15		\$15
Subtotal	\$253		\$278		\$233
Total Expenses	\$588		\$638		\$558
Change from Budget Expenses					
\$			\$50		-\$30
Surplus/Deficit	\$12		\$20		-\$70

Thinking Through Financial Levers of Change

More
Immediate



Takes
longer

Budget Levers	Balance Sheet Levers
<p>Expenses: What is within your control? What's easier or harder to change? What most affects outcomes?</p>	<p>Cash & Reserves: Under what circumstances should you access reserves? Are they Board Designated?</p>
<p>Revenue: What new opportunities can be pursued? Can earned income fees be adjusted? Are there funders who can release funding earlier? Can you hold a special fundraiser?</p>	<p>Cash flow: What is the timing of your cash? Should you look into a line of credit? Can you renegotiate repayment terms with vendors?</p>
<p>Profitability: What is our goal? Can we absorb a deficit or MUST we at least break even?</p>	<p>Capital expenditures: Can you accelerate or delay any facility projects, if necessary?</p>

- High-level Cost vs Benefit Analysis - Create a model to determine the projected costs (expenses) and benefits (revenue) of the Go option.
- Considerations
 - Non-financial benefits (mission/impact goals)
 - Validity of assumptions in costs and benefits
 - Completion risk for new projects or facility projects
 - Liquidity risk for property ownership

Case Example: Go/No-Go on a New Line of Business

Theater Group

New Line of Business

Numbers in 000s	2015 Budget	Description	Off Season Rental	Description	Full Season Rental
Unrestricted Revenue					
Contributed Revenue					
Foundations	\$75		\$55		\$55
Contributions	\$100		\$75		\$75
Special Events	\$105		\$105		\$105
Subtotal	\$280		\$235		\$235
Earned Revenue					
Ticket Sales	\$230		\$230	small decline in ticket sales	\$210
Membership	\$75		\$75		\$75
Class Fees	\$60		\$60		\$60
Studio Rental	\$0	fees for studio rental	\$60	15 extra weeks of rental	\$90
Equipment Rental	\$0		\$0	fees for equip. rentals	\$25
Subtotal	\$365		\$425		\$460
Total Revenue	\$645		\$660		\$695

Change from Budget Revenue

\$		\$15	\$50
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Expenses

Personnel	2015 Budget	Description	Off Season Rental	Description	Full Season Rental
Executive Director	\$65		\$65		\$65
Development Director	\$45		\$45		\$45
Finance Director	\$45		\$45		\$45
Studio Theater Instructor	\$35		\$35		\$35
Program Managers	\$80		\$80	Add'l PM to run rental program	\$115
Program/Admin Assistance	\$30	Part-time (.5) FTE to help manage rental	\$45	.5 FTE to help with rental	\$45
Subtotal	\$300		\$315		\$350
Program & Operations					
Building Maintenance	\$100		\$100	extra building maintenance	\$110
Professional fees	\$25		\$25		\$25
Program Supplies	\$130		\$130		\$130
Utilities	\$60		\$60	increased utility costs	\$75
Misc	\$15		\$15		\$15
Subtotal	\$330		\$330		\$355
Total Expenses	\$630		\$645		\$705

Change from Budget Expenses

\$		\$15	\$75
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Surplus/Deficit	\$15	\$15	-\$10
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The **Multi-Year** Scenario Planning Process



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Case Example: Multi-Year Growth Plan

	2015	2016	2017	2018	2019
Operating Revenue					
Corporate donations	130,000	150,000	200,000	250,000	300,000
Foundation grants	30,000	50,000	75,000	100,000	125,000
Individual donors	5,000	7,500	10,000	10,000	10,000
Fee for service	-	20,000	35,000	60,000	80,000
Total Operating Revenue	165,000	227,500	320,000	420,000	515,000
% rev growth	-	38%	41%	31%	23%
Operating Expense					
Salaries and wages	280,000	355,000	405,000	450,000	450,000
Program expense	10,000	15,000	20,000	20,000	20,000
Marketing & Outreach	15,000	22,500	25,000	25,000	25,000
Business Development	20,000	20,000	15,000	15,000	15,000
Total Operating Expense	325,000	412,500	465,000	510,000	510,000
Operating Surplus/Deficit	(160,000)	(185,000)	(145,000)	(90,000)	5,000
<i>Surplus/Deficit % of Expenses</i>	49%	45%	31%	18%	1%
Capital Revenue					
Growth Capital	350,000	350,000	300,000	150,000	-
Capital Expenses					
Curriculum development	50,000	30,000	25,000	-	-
Website/Online platform	75,000	50,000	50,000	-	-
Outreach campaign	50,000	50,000	30,000	25,000	-
Impact measurement platfo	10,000	25,000	25,000	10,000	-
Total Surplus/Deficit	5,000	10,000	25,000	25,000	5,000
Capital Reserve					
Readiness Fund	350,000	360,000	385,000	410,000	415,000

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Create an actionable plan to help determine what decisions you will make, when, and how, including:

- Clear objectives/priorities
- Roles and responsibilities
- Timeline & benchmarks
- Adjustments in spending, revenue strategies or other financial strategies
- Other actions needed to achieve objectives

The following questions may be useful in creating a plan:

- What are immediate, concrete next steps?
- Who is charged with executing the plan and what decisions need to be made?
- What triggers will lead to Plan B, Plan C, etc.?
- What is the communication strategy?

Take Home Tools/ Additional Resources

- ✓ Decision Matrix
- ✓ Scenario Planning worksheet
- ✓ Scenario Planning budget tool
- ✓ Action Plan Template

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- 14: Partnerships and Collaborations

Financial Management & Decision-Making

NFF Would Like to Thank the Following Organizations for Their Partnership



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WORKSHEET:

Steps for Scenario Planning

1. **Identify the team:** Ensure diverse perspectives from all levels of your organization.
2. **Define the scenario:** With your team, define the question, event or risk that the scenario is exploring? Define the scope and depth of your analysis.
3. **Gather key financial data:** How will revenue and expenses be affected? By how much? Will there be one-time and/or ongoing costs? What revenue or expense are tied to each other or drive changes across the board, for ex., ? Will you need to use cash reserve, debt or other balance sheet resources?
4. **Isolate the financial drivers** and levers that result in change
5. **Develop a baseline or base case:** What is most likely financial picture without the scenario? This might be a single or multi-year budget. Make note of the assumptions you are making to build this base case. For example, which funders are you assuming will continue to support you in the future? Are you assuming a flat budget or growth? What programs will you be running? How are costs escalating over time? It's a good idea to make conservative assumptions and test them with others.

Develop scenarios, including financial adjustments: How will the financial picture change from your "Base Case" if the event, risk or opportunity takes place? Budget line by budget line, make your best educated guess on how revenue, expenses and balance sheet will be affected. Document your assumptions and your confidence level with those assumptions. It's a good idea to make conservative assumptions and test them with others.

Assess the scenarios: Compare your base case with your scenarios. Articulate the headlines, major trends and insights. Note important events, decision points or risks. Complex models may benefit from a narrative or graphs.
6. **Create an actionable plan for each case:** Develop a realistic plan that defines financial objectives, actions, timeframes and benchmarks. Assign responsibilities and decision rights.
7. **Revisit the scenario plan as needed:** Monitor key risks and opportunities and adjust your plan as needed.